CHAPTER V

CONCLUSION

5.1 Research Conclusion

The research results and discussion examine the influence of profitability, liquidity, leverage, and covid-19 effect to stock returns and the moderating role of inflation rate of companies listed on LQ-45 Index in the Indonesia Stock Exchange (IDX), in the period of 2019-2023. The dependent variable is stock returns. The independent variable are profitability (return-on-equity), liquidity (current ratio), leverage (debt-equity-ratio), and covid-19 effect with dummy variable. The moderating variable is inflation rate. The hypothesis testing is conducted with E-Views 12.

The empirical result discovers that profitability (return-on-equity) has a negative and significant effect on stock returns, while both The liquidity (current ratio) and the leverage (debt-equity-ratio) have a negative but insignificant effect on stock returns. Also the covid-19 effect found positive significant effect to stock returns. These findings indicate that high profitability (return-on-equity) does not always translate into higher stock performance, possibly due to high leverage or market overvaluation, it might refers to a signal inefficiencies or overvaluation, discouraging investors. The negative but insignificant effects of liquidity (current ratio) and leverage (debt-equity-ratio) imply that neither factor strongly influences stock returns, potentially due to inefficient asset management or investor skepticism about financial stability. However, the positive and significant effect of COVID-19 on stock returns suggests that certain sectors may have benefited from the pandemic, possibly due to shifts in market demand or government stimulus, leading to increased investor confidence, which reflect a signal that certain sectors are better positioned to capitalize on the crisis, influencing investor behavior.

Inflation rate is formed to moderate the relationship between profitability (return-on-equity), liquidity (current-ratio), and leverage (debt-equity-ratio) on stock returns. The inflation rate weaken the relationship between profitability (return-on-equity) to stock returns, suggesting that as inflation rises, the effect of profitability on stock performance diminishes, possibly due to the erosion of real earnings. However, inflation doesn’t moderate the relationship both liquidity (current ratio) and leverage (debt-equity-ratio) to the stock returns, indicating that investors may not consider inflation a key factor when assessing a company's short-term financial health or capital structure. This suggests that firms may adapt their financial strategies to counter inflationary pressures, keeping their liquidity and leverage effects on stock returns stable.

5.2 Reseach Implication

5.2.1 Theoretical implication

The finding that profitability (return-on-equity) has a positive and significant effect on stock returns aligns with established financial theories, which emphasize profitability as a key driver of stock performance. It supports the notion that firms with higher ROE are more efficient in generating profits from shareholders’ investments, which, in turn, positively influences stock returns. This result also strengthens signaling theory, which suggests that high profitability signals strong company performance and reduces information asymmetry between management and investors.

In terms of liquidity, as measured by the current ratio, the results indicate it does not have a direct or significant impact on stock returns. This supports the perspective that liquidity is more relevant for internal operational and risk management decisions, rather than as a predictor of market performance. It also aligns with theoretical frameworks that suggest stock returns are influenced more by forward-looking indicators, such as earnings expectations and profitability, than by short-term solvency measures.

The result regarding leverage (debt-to-equity ratio) challenges the traditional capital structure theory, which links high leverage with increased financial risk and lower stock performance. It suggests that leverage does not always lead to negative outcomes; in some cases, firms may use debt strategically to finance value-creating activities, thereby offsetting the anticipated negative impact on returns.

The study's finding on the COVID-19 effect adds nuance to the crisis-related market behavior literature. While earlier research highlighted the pandemic's negative impact on financial markets, this result supports behavioral finance theories, particularly those emphasizing investor sentiment and market adaptation. It indicates that during later phases of the pandemic, positive developments—such as vaccine rollouts and government support—boosted investor optimism, which led to improved stock market performance.

Regarding the moderating role of inflation, the study confirms that macroeconomic variables can significantly shape financial relationships. Inflation is shown to moderate the effect of profitability on stock returns, supporting the development of multifactor models that incorporate both firm-level and macroeconomic indicators. However, inflation does not significantly moderate the relationship between liquidity and stock returns, reinforcing the idea that liquidity effects are more microeconomic and operational in nature. Similarly, inflation does not appear to influence the leverage-stock return relationship significantly. This suggests that capital structure dynamics remain relatively stable across different inflation environments—at least within the context of the LQ45 Index—and challenges the assumption that inflation inherently increases the cost of capital or alters investor risk perception.

5.2.2 Practical Implication

For investors and financial analysts, the findings emphasize the importance of profitability—particularly Return on Equity (ROE)—as a reliable metric when evaluating investment opportunities. Companies that consistently maintain high ROE are more likely to deliver superior stock returns, making ROE a valuable tool for portfolio screening and equity valuation. Investors should prioritize firms with strong profitability, especially during stable macroeconomic conditions. In contrast, focusing too heavily on liquidity ratios may not provide meaningful insights into stock performance. Instead, investors should place greater emphasis on a company's growth prospects, profitability, and broader macroeconomic factors when making investment decisions. While liquidity remains relevant from a risk management standpoint, it may not be a strong indicator for return estimation.

Regarding leverage, the results suggest that investors should avoid making blanket assumptions based solely on high debt levels. The context and quality of debt usage are critical—companies that effectively utilize debt for innovation or expansion may not experience negative impacts on stock returns. Therefore, investment decisions should take into account how debt is structured and deployed, rather than relying solely on the debt-to-equity ratio.

For policy makers and investors, the covid-19 effect on stock returns indicates that market reactions during crises are not universally negative and may evolve over time. Positive news and strategic communication during crises can help restore market confidence. Investors should remain agile and responsive to sentiment shifts rather than adhering strictly to pessimistic views during uncertainty.while inflation can influence how profitability affects stock returns—especially during high inflation periods—its impact on liquidity and leverage appears minimal. Investors should consider inflation forecasts when analyzing firm profitability, but may not need to significantly adjust assessments of liquidity or leverage based on inflation alone, unless it notably affects broader financial conditions like interest rates.

5.3 Reseach Limitation

1. This study only uses the projection of some financial ratios with the stock returs value as a variable that will be seen to be influenced by other independent variables.

2. This study focuses more on financial ratios which might not reflect as financial health or future performance as independent variables, although there are still many other factors to assess the influence to stock returns.
3. This study focuses more on companies listed in LQ-45 Index Indonesia Stock Exchange, with the data collected from the period 2019-2023.

5.4 Research Recommendation

1. Future research should add more factors as independent variable affected to stock returns.
2. Future research also analyze a longer timeframe to capture long-term trends and better assess the impact of financial ratios and macroeconomics conditions on stock returns.
3. Conducting separate analyses for different sectors within the LQ45 Index can help in identifying variations in financial ratios effect across industries.