

Inflation as moderating effect of financial performance, earnings management, and firm value on stock return

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ABSTRACT

Purpose: This study aims to investigate the impact of the current ratio, debt-to-equity ratio, return on assets, earnings management, and firm value on stock returns, with inflation serving as a moderating variable, specifically in essential industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Methods: This study aims to investigate the impact of the current ratio, debt-to-equity ratio, return on assets, earnings management, and firm value on stock returns, with inflation serving as a moderating variable, specifically in essential industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Findings: The findings of this study indicate that 1. the current ratio does not affect stock returns. 2. The debt-equity ratio impacts stock returns. 3. return on assets does not influence stock returns. 4. earnings management does not affect stock returns 5. firm value positively affects stock returns. 6. inflation does not moderate the current ratio and return on assets with stock returns; however, inflation does moderate the relationship between the debt-to-equity ratio and earnings management with stock returns.

Practical Implications: This study's practical implications suggest that investors should pay close attention to the debt-to-equity ratio and firm value when making investment decisions in basic industrial and chemical manufacturing companies. Furthermore, as inflation moderates specific financial ratios, investors should consider the economic climate, particularly inflation trends, when assessing the potential return on their investments.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk menginvestigasi pengaruh rasio lancar, rasio utang terhadap ekuitas, return on assets, manajemen laba, dan nilai perusahaan terhadap return saham, dengan inflasi sebagai variabel moderating, khususnya pada perusahaan manufaktur sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia (IDX).

Metode: Teknik pengambilan sampel yang digunakan dalam penelitian ini adalah purposive sampling. Sampel penelitian terdiri dari 34 perusahaan manufaktur dalam sektor industri dasar dan kimia yang terdaftar di IDX dari tahun 2017 hingga 2019, menghasilkan total 102 data. Metode analisis data yang digunakan adalah analisis regresi linier berganda dan analisis regresi tereduksi, dengan menggunakan perangkat lunak Eviews versi 9.

Hasil: Temuan penelitian ini menunjukkan bahwa 1. rasio lancar tidak berpengaruh terhadap return saham. 2. rasio utang terhadap ekuitas berpengaruh terhadap return saham. 3. return on assets tidak mempengaruhi return saham. 4. manajemen laba tidak berpengaruh terhadap return saham. 5. nilai perusahaan berpengaruh positif terhadap return saham. 6. inflasi tidak memoderasi hubungan antara rasio lancar dan return on assets dengan return saham; namun, inflasi mampu memoderasi hubungan antara rasio utang terhadap ekuitas dan manajemen laba dengan return saham.

Implikasi Praktis: Studi ini menunjukkan bahwa investor sebaiknya memperhatikan rasio utang terhadap ekuitas dan nilai perusahaan saat mengambil keputusan investasi di perusahaan manufaktur sektor industri dasar dan kimia. Selain itu, karena inflasi memoderasi rasio keuangan tertentu, investor harus mempertimbangkan iklim ekonomi, terutama tren inflasi, saat menilai potensi return dari investasi mereka.

Kata Kunci: Rasio Lancar, Rasio Hutang terhadap Ekuitas, Return on Asset, Manajemen Laba, Nilai Perusahaan, Tingkat Pengembalian Saham, Inflasi

1. Introduction

Investment offers various options, including investments in the capital market. According to Nadiya (2019), the capital market is an effective means for investors to allocate their capital to earn profits, known as stock returns. Dividends are company profits distributed to shareholders over a set period (Putra & Dana, 2016), and the amount of dividends distributed depends on the company's dividend policy. Consequently, investors do not pay excessive attention to fluctuations in the capital market but instead focus on financial statements. Meanwhile, investors looking to profit in the short term can achieve this through capital gains by comparing a stock's selling price and purchase price. These investors consistently monitor market fluctuations.

If an investor desires a higher return, they must accept a higher risk, and conversely, if they seek a lower return, the risk they bear will also be lower (Suryani Ulan Dewi & Sudiarta, 2018). The size of stock returns is influenced by several factors, including financial performance, earnings management, company size, and dividend policy (Hawari & Putri, 2020). Financial statements reflect a company's financial performance, while financial ratios measure this performance (Nadiya, 2019). The financial ratios employed by a company can provide insight into the financial health and development of the firms that have issued shares.

This study utilizes three financial ratios: profitability, solvency ratios (leverage), and liquidity. The researchers selected these three ratios because they can depict the company's

ability to generate profits, be financed by debt, and meet its obligations, thereby allowing investors to analyze and calculate the expected stock returns. In this study, the activity ratio is excluded because its significant effect on stock returns has not been determined.

The liquidity ratio measures the company's ability to pay current (short-term) debts using its current assets (Putra & Dana, 2016). A company is deemed liquid if its current assets exceed its current liabilities. An illiquid company may be interpreted as an unhealthy company. The solvency ratio (leverage) indicates a company's ability to manage short and long-term liabilities or the extent to which it is financed by debt. According to Suryani Ulan Dewi and Sudiarta (2018), the level of leverage varies from one company to another or from one period to another within the same company; higher leverage entails greater risk while also suggesting higher expected returns. The profitability ratio reflects the company's ability to profit or measures management effectiveness. The ability to generate profit can be gauged by either equity capital or all funds invested in the company (Suryani Ulan Dewi & Sudiarta, 2018).

Earnings management refers to the condition where management falls short of meeting profit targets, leading them to utilize the flexibility permitted by accounting standards to adjust reported earnings (Adiwibowo, 2018). Management decisions on profits directly impact dividend policies for investors. Firm value is shaped by investors' perceptions of a company's performance, reflected in stock price changes (Ryadi, 2017). When a company performs well, stock demand rises, increasing prices and capital gains contribute to stock returns.

External factors like inflation also influence a company's ability to generate returns. Inflation represents a continuous increase in general prices, raising raw material costs and operational expenses, elevating selling prices, and diminishing purchasing power. This makes inflation a relevant moderating variable in examining the relationships between financial performance, earnings management, and firm value, as it affects investor behavior.

This research focuses on the Indonesian manufacturing industry's essential and chemical industrial sectors, which are noted for their significant annual growth compared to other sectors. In 2017, these sectors achieved a year-to-date growth of 17.08%, making them the second-highest growth sector after finance. In 2018, growth reached 21.17%, while the Composite Stock Price Index slightly declined. In 2019, the basic industrial sector recorded a 16.36% increase, outperforming other sectors, with significant contributions from chemical, animal feed, and cement sub-sectors.

2. Theoretical Background

Review of Previous Research Results

Several studies have explored the relationship between financial metrics and stock returns, particularly within the Property and Real Estate sector in Indonesia. Research by Nisaa Khairun & Budiarti (2017) indicates a negative impact of liquidity on stock returns, suggesting that a high current ratio may denote poor asset management which leads to underutilized assets, ultimately diminishing investor interest and stock prices. Conversely, Nadiya (2019) highlights a positive influence of solvency on stock returns. A higher debt-to-equity ratio typically reflects a more favorable investment scenario, leading to increased stock returns. Kurniawan's (2017) study contends that profitability does not significantly impact stock returns, asserting that sufficient profits can exist without necessarily elevating stock performance.

Further exploration into the dynamics reveals that earnings management, as suggested by Adiwibowo (2018), has an insignificant positive effect on stock returns, indicating that

market psychology may play a more crucial role in driving stock prices than reported earnings. Moreover, Lantari & Widnyana (2018) found that firm value, measured by Price to Book Value (PBV), positively correlates with stock returns, emphasizing the importance of company valuation. Finally, Purnamasari & Japlani (2020) note that the inflation rate can moderate the relationship between financial performance and stock returns, suggesting that in times of mild inflation, lower production costs can enhance profits and consequently stock returns.

Signally Theory

Signaling theory emphasizes the importance of information issued by the company to the investment decisions of parties outside the company. Alhogbi (2017) states that information published as an announcement will provide a signal for investors to make sound investment decisions (good news) or bad signals (bad news). If the announcement is made, market participants first interpret and analyze the information as a positive value signal; the market is expected to react when it receives the announcement.

Financial Performance

Financial performance analysis evaluates an organization's adherence to financial regulations and standards, including the provision of financial reports that conform to SAK (Financial Accounting Standards) and GAAP (Generally Accepted Accounting Principles) (Hawari & Putri, 2020). A key method for measuring this performance is ratio analysis, which is categorized into four main types: liquidity ratios, solvency ratios (leverage), profitability ratios, and activity ratios (Hanafi & Halim, 2009, p. 75), as referenced in (Nisaa Khairun & Budiarti, 2017). The liquidity ratio, particularly the Current Ratio, assesses short-term liquidity by comparing current assets to liabilities, where creditors prefer a higher ratio. However, an excessively high ratio may indicate inefficiencies (Putra & Dana, 2016).

Moreover, solvency ratios evaluate a company's ability to meet its short- and long-term financial commitments, primarily assessed through the debt-equity ratio, indicating the debt level of equity. A higher debt-equity ratio suggests increased financial risk, as it shows that debt exceeds equity, and ideally, debt should not surpass equity for manageable obligations. Profitability ratios, such as Return on Assets (ROA), measure how effectively a company generates profits. A higher ROA indicates better asset utilization in generating net profits, thus enhancing profitability and potential returns for the company (Sujarweni, as cited in Purba, 2019).

Earnings Management

Mufidah & Dedik Nur Triyanto (2018) argue that earnings management involves manipulating accrual components within financial statements, as these components are easily adjustable by those preparing the reports. This practice is defined as an intervention by managers to influence the reported information, aiming to affect stakeholders' perceptions of the company's performance and condition (Sulistyanto, 2008, p. 14). While some view this intervention as fraudulent, others argue it falls within standard accounting practices. Managers' willingness to engage in such behavior is influenced by their motivation and ethical standards, making the quality of financial information heavily reliant on these factors. This information gap can lead to opportunistic behavior by managers, ultimately resulting in misallocation of the company's resources.

Firm Value

Company value refers to its selling price in the capital market, with the primary goal of maximizing profits and shareholder prosperity through efforts to increase the market value of its stock price. It also encompasses the market value of outstanding debt securities and company equity (Habsari & Akhmadi, 2018). The concept is based on the present value of future cash flows; thus, a higher company value implies greater potential prosperity for shareholders. For companies listed in the capital market, the stock price is a key indicator of value, with higher prices reflecting increased public confidence in both current performance and prospects.

Inflation

According to the official website of Bank Indonesia, inflation refers to the overall and continuous rise in prices. However, a price increase affecting just one or two items is not classified as inflation; it only qualifies as such if it is widespread and leads to significant increases in the prices of other goods. Inflation serves as one of the macroeconomic factors that influence returns. The inflation rate in a country reflects the level of investment risk, which subsequently impacts how investors behave. Excessively high inflation can erode purchasing power and decrease the income investors gain from their investments.

Stock Returns

Stock returns are the earnings investors achieve from their investments, stemming from share ownership in the form of dividends and capital gains (or losses), as noted by Kurniawan (2017). Dividends can be cash payments or stock dividends, while capital gains occur when shares are sold at a higher price than purchased.

These returns include realized returns, which have already occurred and are derived from historical data, and expected returns, which are uncertain future earnings significant for investment decisions. Jogiyanto (2010:94) defines abnormal returns as actual returns that exceed regular returns, highlighting the difference between expected and achieved results.

Hypothesis Development

A hypothesis is a provisional answer to the research problem formulated in a statement form. It is considered provisional because the responses are based on relevant theory. The hypotheses can be stated as follows:

H₁ : The liquidity ratio affects stock returns.

H₂ : The solvency ratio (leverage) affects stock returns.

H₃ : Profitability ratios affect stock returns.

H₄ : Earnings management affects stock returns.

H₅ : Firm value affects stock returns.

H_{6a} : Inflation moderates the effect of liquidity on stock returns.

H_{6b} : Inflation moderates the effect of solvency (leverage) on stock returns.

H_{6c} : Inflation moderates the effect of profitability on stock returns.

H_{6d} : Inflation moderates the effect of earnings management on stock returns.

H_{6e} : Inflation moderates the effect of firm value on stock returns.

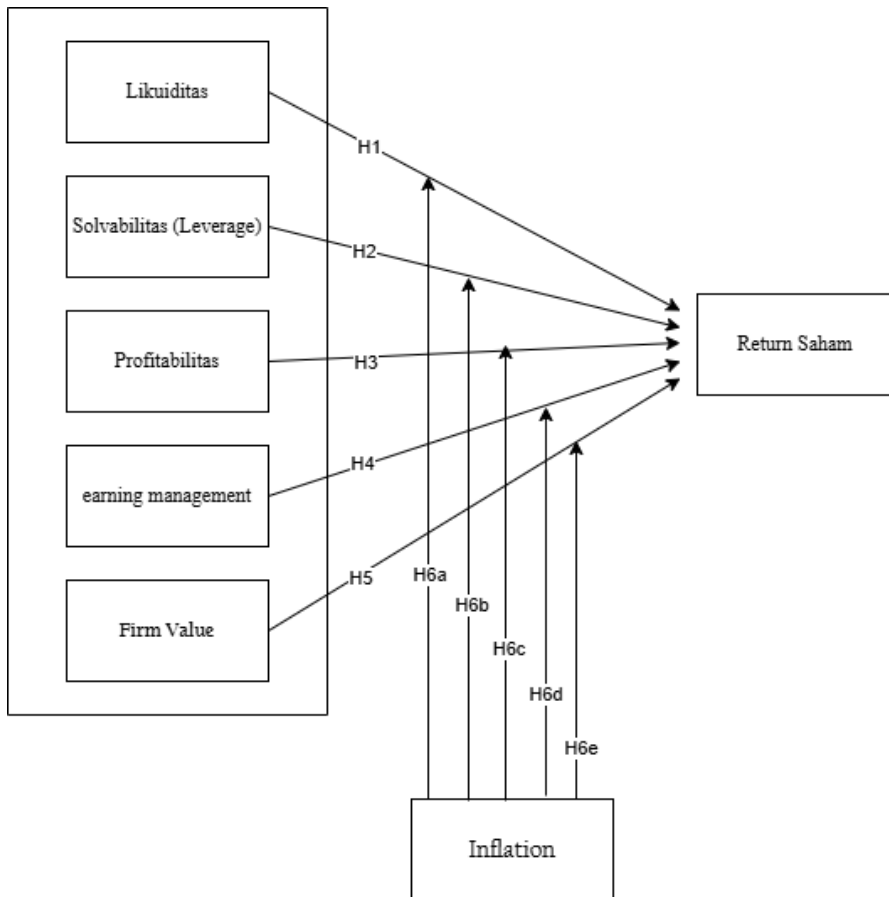


Figure 1. Conceptual Framework

3. Methods

This research focuses on manufacturing firms in the basic and chemical sectors listed on the Indonesia Stock Exchange (IDX) during the 2017-2019 timeframe. It utilizes secondary data and employs a purposive sampling technique. Sugiyono (2018) outlines that purposive sampling is a method that selects samples based on specific criteria.

The criteria for the included companies in this research are as follows:

- 1) Manufacturing firms within the Basic and Chemical Industry Sector listed on the Indonesia Stock Exchange (IDX) in the 2017-2019 period.
- 2) Companies that provide complete financial statement data relating to the research variables during the 2017-2019 timeframe.
- 3) The companies must not have incurred losses (must have profits) between 2017 and 2019.
- 4) Financial statements must be presented in the currency of rupiah.

Thirty-four companies meet these criteria and are selected as samples for this study.

Hypothesis Testing Method The study utilizes a panel data regression model to analyze the relationship between financial performance, earnings management, firm value, and stock returns. It also conducts a moderation test to control for moderating variables, explicitly examining how inflation influences these relationships. The interaction test, known as Moderated Regression Analysis (MRA), is applied to include interaction terms in the regression equation.

4. Results and Discussion

Descriptive Statistical Analysis Results

The descriptive statistical analysis results for the financial indicators are summarized in the table 1. The data set includes a total of 102 observations for each variable analyzed. The minimum return on stock recorded was -0.905706. In contrast, the maximum return reached 5.642866, with a mean of -0.01862 and a standard deviation of 0.678412, indicating a wide range of stock return performance among the observed firms. The Current Ratio varied from a minimum of 0.4575 to a maximum of 1,050.393, with an average of 2.322668 and a standard deviation of 1.777617, suggesting variations in liquidity management.

The debt-equity ratio showed a minimum of 0.1357 and a maximum of 544.256, with a mean of 1.093642 and a standard deviation of 0.921109, reflecting the firms' financial leverage. The Return on Assets (ROA) ranged from a minimum of 0.00028 to a maximum of 0.20233, with an average of 0.051017 and a standard deviation of 0.04179, indicating varying profitability levels across firms. Additionally, Earnings Management had a minimum of -0.004704 and a maximum of 0.019931, with a mean of 0.000569 and a standard deviation of 0.002537, revealing minimal manipulation within the earnings reported. Finally, the Firm Value showed a wide range, with a minimum of 0.51835, a maximum of 777.848, a mean of 1,287.252, and a standard deviation of 0.959256, highlighting significant disparities in market valuation among the firms in the sample.

Table 1. Results of Descriptive Statistical Analysis

Satistik	Return Saham	Current Ratio	Debt to Equity Ratio	Return on Asset	Earnings Management	Firm Value
Minimum	-0.905706	0.4575	0.1357	0.00028	-0.004704	0.51835
Maximum	5.642866	1.050.393	544.256	0.20233	0.019931	777.848
Mean	-0.01862	2.322668	1.093642	0.051017	0.000569	1.287.252
Std. Deviasi	0.678412	1.777.617	0.921109	0.04179	0.002537	0.959256
Observations	102	102	102	102	102	102

Source: Output Eviews version 9

Hypothesis Testing

The t-test assesses the impact of independent variables such as current ratio, debt-to-equity ratio, return on assets, earnings management, and firm value on stock return. A probability value below 0.05 indicates significant results, accepting H_a , while a t-count less than the t-table value rejects H_a . Eviews nine analysis reveals an F-statistic probability value of 0.041217, confirming that all independent variables significantly affect the stock return and validating the model for further testing.

Using Eviews 9 software, the t-test results were analyzed in Table 2 based on a sample of 102 observations and five independent variables, leading to a calculated degree of freedom of 96. At a significance level of 0.05, the critical t-table value is 1.98498. The findings reveal various impacts of the independent variables on stock returns.

Table 2. Result of T-test

Variabel	Coefficient	Std. Error	t-Statistik	Probabilitas
Constant	-1.701873	0.423550	-4.018.113	0.0002
Current Ratio	0.046516	0.074404	0.625188	0.5341
Debt to Equity Ratio	0.770659	0.262247	2.938677	0.0046
Return on Asset	5.84.942	2.886699	2.024091	0.0472
Earnings Management	3.987296	33.52120	0.118948	0.9057
Firm Value	0.335622	0.121580	2.760495	0.0075
R-squared		0.496695		
Adjusted R-squared		0.193115		

Source: Output Eviews version 9

Starting with the current ratio, the t-count of 0.625188, accompanied by a probability value of 0.5341, suggests rejecting the null hypothesis. This indicates that the current ratio does not significantly influence stock returns. In contrast, the debt-to-equity ratio demonstrates a t-count of 2.938677 and a probability value of 0.0046, supporting the hypothesis's acceptance and highlighting a significant positive effect on stock returns. Furthermore, the return on assets shows a t-count of 2.024091 and a probability value of 0.0472, leading to a similar acceptance of the hypothesis, as its value exceeds the critical threshold.

On the other hand, the analysis of earnings management reveals a t-count of 0.118948 and a probability of 0.9057, which rejects its hypothesis and signifies no substantial impact on stock returns. Finally, the firm value presents a t-count of 2.760495 with a probability value of 0.0075, allowing for the acceptance of its hypothesis and affirming a significant positive impact on stock returns.

Table 3. T Test Results (Moderated Regression Analysis)

Variabel	Koefisien	Std. Error	t-Statistik	Probabilitas
Inflation	1.459778	1.674134	0.871960	0.3869
Interaction between Current Ratio and Inflation	-0.568362	0.356617	-1.593759	0.1165
Interaction between Debt to Equity Ratio and Inflation	-2.245483	0.801288	-2.802343	0.0069
Interaction between Return on Assets and Inflation	1.640.224	1593.062	1.029605	0.3075
Interaction between Earnings Management and Inflation	1609.969	406.3347	3.962.75	0.0002
Interaction between Firm Value and Inflation	-0.416918	0.695811	-0.599183	0.5514
R-squared		0.672343		
Adjusted R-squared		0.419416		

Source: Output Eviews version 9

Variable Inflation can be classified as a moderating variable under specific conditions. Suppose the regression coefficient is negative and the significance level is below 0.05. In that case, the The alternative hypothesis is accepted, indicating that inflation effectively moderates the relationship between the independent variable and the dependent variable. Conversely, if the regression coefficient is positive and the significance level exceeds 0.05, the hypothesis is rejected,

suggesting that the moderating variable does not significantly influence the relationship between the independent and dependent variables.

The resulting probability value for examining the interaction between the current ratio and stock returns is 0.1165. As this value is greater than 0.05, we reject H6a, which posits that inflation moderates the current ratio's impact on stock returns. This finding reveals that inflation is not significant in moderating the current ratio's effect on stock returns, indicating a negative correlation direction. Turning to the debt-to-equity ratio, the interaction yields a probability value of 0.0069. Since this value is less than 0.05, we accept H6b, confirming that inflation moderates the relationship between the debt-to-equity ratio and stock returns. This result suggests that inflation strengthens the negative influence of the debt-to-equity ratio on stock returns.

The analysis shows a probability value of 0.3075 for return on assets. With this value above 0.05, we reject H6c, indicating that inflation fails to moderate the relationship between return on assets and stock returns despite a positive correlation direction, the interaction for earnings management yields a probability value of 0.0002. Given that this value is less than 0.05, we accept H6d, concluding that inflation significantly moderates the relationship, thus enhancing the positive effect of earnings management on stock returns.

Finally, the probability value for firm values is 0.5514, more significant than 0.05. Therefore, we reject H6e, meaning that inflation is insignificant in moderating the effect of firm value on stock returns, and this relationship is directed negatively.

The analysis results in Table 3 show that the Adjusted R-squared value is 0.193115. This indicates that the independent variable Financial Performance (Current Ratio, Debt to Equity Ratio, Return on Asset), Earnings Management, and Firm Value explain 19.3115% of the variation in the dependent variable, Stock Return. The remaining 80.6885% is attributed to other variables not included in this study.

Discussion

Effect of liquidity ratio (current ratio) on stock return

Data analysis from 34 manufacturing companies in the elemental and chemical industry sector over the 2017-2019 period indicates that the liquidity ratio (current ratio) does not significantly affect stock returns. A low current ratio often points to liquidity issues, such as insufficient capital, which may hinder the company's ability to fulfill short-term liabilities, potentially leading to declining stock prices. Conversely, a high current ratio does not necessarily reflect a company's good standing, as it may indicate unproductive current assets, excessive receivables and inventory, and low inventory turnover, which can lead to reduced investor interest and falling stock prices, according to Kurniawan (2017). This is supported by findings from Nisaa Khairun & Budiarti (2017), Alhogbi (2017), Kurniawan (2017), and Nadiya (2019), all of which suggest that liquidity ratios have no significant impact on stock returns.

The influence of solvency ratio (leverage) (debt to equity ratio) on stock returns

The analysis of 34 manufacturing companies in the elemental and chemical industry sector for the 2017-2019 period reveals that the solvency ratio (leverage), particularly the debt-to-equity ratio, significantly affects stock returns. A positive regression coefficient indicates that a higher debt-to-equity ratio correlates with higher stock returns. This ratio measures the debt used to finance investments, with increased financial leverage resulting in higher company debt. A high

debt-to-equity ratio suggests that the company relies more on debt than equity, indicating more significant risk associated with higher returns. Consequently, increases in the debt-to-equity ratio generally lead to positive market reactions, boosting stock prices and returns. This suggests that investors consider the debt-to-equity ratio in their investment decisions. These findings are consistent with research by Nisaa Khairun & Budiarti (2017), Nadiya (2019), and Purba (2019), all of which confirm that the solvency ratio (leverage) positively and significantly impacts stock returns.

The effect of profitability ratios (return on assets) on stock returns

The profitability ratio (return on assets) significantly affects stock returns. A positive regression coefficient suggests that an increase in return on assets corresponds to a rise in stock returns. This relationship is calculated by comparing the current year's total profit to the company's assets. A high return on assets indicates that the company effectively uses its assets to generate profits. Such profit levels can capture the attention of investors. As more investors participate, the share demand increases, increasing stock prices. This creates a favorable signal for other investors, encouraging additional investments and potentially leading to considerable returns. These results are consistent with studies conducted by Tezar (2020), Dika Parwati & Merta Sudiartha (2016), and Purba (2019), which affirm that the profitability ratio (return on assets) positively and significantly affects stock returns.

The effect of earnings management on stock return

Earnings management has no significant effect on stock returns, meaning it does not notably influence the increase in stock prices. Earnings management, particularly discretionary accruals, aims to attract investor interest and boost the company's stock price, thereby meeting investor return expectations. However, investors often do not view earnings management positively when evaluating a company's performance for investment decisions, as market psychology affects stock price movements more. This finding aligns with research by Udayana (2017) and Adiwibowo (2018), concluding that earnings management does not significantly impact stock returns.

The effect of firm value on stock return

The value of a company significantly impacts stock returns, with Tobin's Q used as a superior measure compared to the price-to-earnings ratio or price-to-book value. A high Tobin's Q indicates that the company's market capitalization surpasses its asset value, reflecting investor perceptions of performance through changing stock prices. Strong performance boosts stock prices, leading to capital gains, a crucial part of stock returns. Companies must disclose their value annually to help investors identify worthwhile investment opportunities. This study supports findings from Ryadi (2017) and Lantari & Widnyana (2018) that confirm the positive relationship.

Inflation moderates the effect of liquidity on stock returns

Inflation does not moderate the relationship between liquidity (current ratio) and stock returns. According to signaling theory, the current ratio fails to signal investors to invest because they often disregard comparing current assets and liabilities. Interaction tests show that inflation does not affect the liquidity variable's influence on stock returns. This suggests that fluctuations

in inflation do not significantly impact asset values or company liabilities, likely due to the low inflation rate in this study, which is under ten percent, categorizing it as mild inflation.

Inflation moderates the effect of solvency (leverage) on stock return

Inflation can weaken the effect of solvency (debt to equity ratio) on stock returns by increasing operating costs. When production costs exceed selling prices, profits decline. However, low inflation levels may suppress production costs below selling prices, thereby increasing profits, as Purnamasari & Japlani (2020) noted. Interaction tests show that inflation weakens the influence of solvency on stock returns, as a stable and low inflation rate sends positive signals to investors and enhances company performance, leading to higher profits. Increased profits enable the company to meet its obligations, thus improving the solvency ratio. Rising production costs and selling prices without corresponding profit increases can weaken this relationship. This finding aligns with Purnamasari & Japlani (2020), which indicate that inflation can moderate the effect of solvency on stock returns.

Inflation moderates the effect of profitability on stock returns

Inflation does not moderate the effect of profitability (return on assets) on stock returns. Companies often rely on raw material prices to meet profit targets; lower raw material costs can reduce operating expenses and increase profits. However, overall inflation raises product prices, which can decrease profitability. Interaction tests in this study found that inflation does not influence profitability's impact on stock returns. This is partly because the inflation rate is low, remaining below 10%, and thus does not significantly affect company operations. These findings align with Kobar & Kusmana (2020), which also state that inflation cannot moderate profitability's effect on stock returns.

Inflation moderates the effect of earnings management on stock return

Inflation can enhance the impact of earnings management on stock returns. In this study, earnings management did not influence stock returns because the company's earnings manipulation did not receive a positive response from investors. Inflation is a moderator, as low inflation keeps production costs down while selling prices increase, boosting company profits. Higher profits can attract investors. Additionally, earnings management shapes discretionary accruals to draw investors' attention, potentially raising the company's stock price and expected returns. However, many investors may disregard earnings management in their investment decisions, focusing instead on market psychological factors.

Inflation moderates the effect of firm value on stock returns

Inflation does not moderate the effect of firm value on stock returns. High inflation can harm companies, lead to bankruptcy, and negatively impact the economy. The inflation rate affects stock prices as it raises operating costs. When increased costs surpass revenues, company profitability declines, signaling negative implications to investors who lose interest in investing, resulting in diminished expected returns. Consequently, stock prices may fall, affecting firm value. Thus, rising inflation decreases firm value, confirming that inflation cannot moderate firm value's impact on stock returns, particularly since the inflation rate remains below ten percent, indicating mild inflation.

5. Conclusion

This study aimed to investigate the influence of financial performance (current ratio, debt to equity ratio, return on assets), earnings management, and firm value on stock returns, with inflation serving as a moderating variable in manufacturing companies within the elemental and chemical industries listed on the Indonesia Stock Exchange from 2017 to 2019. The findings revealed that the liquidity variable (current ratio) did not significantly impact stock returns. In contrast, the solvency variable (debt to equity ratio) and profitability variable (return on assets) showed a significant positive effect on stock returns. At the same time, earnings management did not demonstrate a significant impact.

Additionally, the study explored the moderating role of inflation. The results indicated that inflation did not significantly moderate the effect of liquidity on stock returns but did weaken the impact of solvency. Conversely, inflation strengthened the relationship between earnings management and stock returns. However, it did not significantly moderate the effect of profitability or firm value on stock returns. These findings provide insights for investors and managers regarding the key financial indicators affecting stock performance and the role of inflation as a moderating factor.

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Appendix

Attachment 1. Research Sample

No	Stock Code	Company Name
1	AGII	Aneka Gas Industri Tbk.
2	AKPI	Argha Karya Prima Industry Tbk.
3	ALDO	Alkindo Naratama Tbk.
4	ALKA	Alakasa Industrindo Tbk.
5	ANTM	Aneka Tambang Tbk.
6	ARNA	Arwana Citramulia Tbk.
7	BTON	Betonjaya Manunggal Tbk.
8	BUDI	Budi Starch & Sweetener Tbk.
9	CITA	Cita Mineral Investindo Tbk.
10	CLPI	Colorpak Indonesia Tbk.
11	CPIN	Charoen Pokphand Indonesia Tbk.
12	EKAD	Ekadharma International Tbk.
13	FASW	Fajar Surya Wisesa Tbk.
14	HKMU	HK Metals Utama Tbk.
15	IGAR	Champion Pacific Indonesia Tbk.
16	IMPC	Impack Pratama Industri Tbk.
17	INAI	Indal Aluminium Industry Tbk.
18	ISSP	Steel Pipe Industry of Indonesia Tbk.
19	KDSI	Kedawung Setia Industrial Tbk.
20	KMTR	Kirana Megatara Tbk.
21	LION	Kirana Megatara Tbk.
22	LTLS	Lautan Luas Tbk.
23	MAIN	Malindo Feedmill Tbk.
24	MOLI	Madusari Murni Indah Tbk.
25	PBID	Panca Budi Idaman Tbk.
26	PICO	Pelangi Indah Canindo Tbk.
27	SMBR	Semen Baturaja (Persero) Tbk.
28	SPMA	Suparma Tbk.
29	SRSN	Indo Acidatama Tbk.
30	STAR	Buana Artha Anugerah Tbk.
31	TALF	Tunas Alfin Tbk.
32	TOTO	Surya Toto Indonesia Tbk.
33	WSBP	Waskita Beton Precast Tbk.
34	WTON	Wijaya Karya Beton Tbk.

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