

NAVIGATING THE FINANCIAL LANDSCAPE: Analyzing Stock Returns in the Face of Inflation, Interest Rates, and Investment Risk

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ABSTRACT

The decline in stock price has an impact on reducing the results received by shareholders. The purpose of this study is to determine and analyze how the influence of inflation, interest rates, and investment risk on stock yields, with financial performance as a factor that also plays a role, in companies engaged in the food and beverage sector from 2017 to 2021. This study used a descriptive method that looks for relationships between variables, using existing data. To analyze the data, panel data analysis and Eviews 12 software are used. A total of 54 food and beverage companies were the focus of this study, which were listed on the Indonesia Stock Exchange during the period. Sampling is carried out by selected sample method, by purposive sampling. A total of 11 companies were selected as samples in this study. The test results show that together, i.e. simultaneously, inflation, interest rates, investment risk, and financial performance have a significant impact on the stock yield of these companies.

Keywords: Inflation, Interest Rate, Investment Risk, Stock Return, Financial Performance

INTRODUCTION

Stock price is the value of shares formed from a stock buying and selling activity in the capital market. Changes in stock prices are an important point for investors. Because investors will consider the existing stock price before investing in the stock. The formation of stock prices must be at a fair price for all shares traded on the stock exchange. Investors must be able to analyze stock prices because stock prices always change every time.

The goal of an enterprise is to make a profit. In order to achieve this goal, the company needs capital or additional funds in the form of investment. According to (Santi, 2020) the delay in current consumption that is put into productive assets or production processes whose results for future consumption can be said to be an investment. The expectation of investors in their investments is to obtain a level of

return with a certain level of risk. The higher the return, the higher the investor's interest in investing.

According to (Purnamawati & Werastuti, 2021) that stocks are the most preferred investment instrument by investors because stocks are able to provide a certain level of profit. There are two main components that are the source of stock returns, namely capital gains and dividends. The first component of stock return is capital gain/loss which is the difference between the stock price at the beginning of the period and the price at the end of the period. Dividends are company profits that are distributed to shareholders in a certain period. The following is the data on the return of PT Sekar Laut shares for 2017-2021.

Food and beverage companies are one of the industrial activities that depend on investor funds. Based on this, food and beverage companies must be able to maintain the company's financial performance. According to (Chusnah, et, al., 2022) financial performance is the result or achievement that has been achieved by company management in carrying out its function of effectively managing company assets during a certain period. Financial performance is needed by companies to know and evaluate to what extent the company's success rate is based on financial activities that have been implemented.

In Indonesia, companies engaged in the food and beverage industry experienced increases and decreases in sectors that are considered able to survive and experience significant growth in the face of the global crisis, especially those engaged in the food and beverage industry. Food and beverage companies are one of the mainstays supporting Indonesia's manufacturing growth.

Rational investors need to analyze what factors affect stock returns. The analysis is divided into two, namely technical analysis and fundamental analysis. In the process, technical analysis requires historical data on sales volume and stock prices. Fundamental analysis aims to find out the intrinsic value of stocks. Fundamental analysis according to (Oliyan, 2022) consists of three stages, namely economic analysis, industry analysis and company analysis. There are macroeconomic factors that affect stock returns. Macroeconomic factors originate from various economic problems, one of which is inflation, and interest rates. While on internal factors, fundamentals can be

seen from the financial statements, and the financial statements of issuers can be seen from the level of financial performance, both in terms of their ability to generate profits.

Inflation is an event that describes a situation and condition in which the price of goods increases and the value of money weakens. High inflation causes a decrease in the profitability of a company, so it will reduce dividend distribution and people's purchasing power will also decrease. So that high inflation results in stock prices will also decrease. The decline in stock prices makes the returns obtained by shareholders also decrease. Inflation can also change the pattern of allocation of production factors of a company caused by an increase in demand for various kinds of goods. The increase in demand for goods also causes price increases that make companies experience losses, so it can affect the performance of each company (Nugroho, et, al., 2022).

In addition, one of the concerns of investors in investing is the level of risk that will be faced. Risk as a form of situation that will occur later with decisions taken based on various current developments. So investment risk is a difference from the return that occurs with the expected return, so in investing investors need to do a risk analysis first to find out whether or not the risk will affect stock returns. There are two types of risk, namely systematic risk and unsystematic risk. Systematic risk is non-diversifiable risk or market-related risk and unsystematic risk is diversifiable risk or risk related to changing conditions internal to a company. Beta is a systematic risk gauge, which is a measure of the volatility of a security's return or portfolio's return on market returns. Investment risk analysis can be done on systematic risk or commonly called market risk. Return and risk are two things that cannot be separated, because the consideration of an investment is a trade off of these two factors. Return and risk have a positive relationship, the greater the risk that must be borne, the greater the return that is compensated or expected.

THEORETICAL BASIS

Financial Performance

To decide a business entity or company has good quality, there are two most dominant assessments that are used as a basis for reference to see the business entity carry out a good management principle. Financial performance looks at the financial statements owned by the company concerned. According to (Purnamasari & Japlani,

2020), financial performance is an analysis carried out to see the extent to which a company has carried out performance using implementation rules properly and correctly.

Financial performance refers to the evaluation and analysis of the financial health of an entity, such as a company, organization, or individual, based on the performance and efficiency of its financial management. It involves measuring and assessing various financial aspects to understand how well the entity is managing their financial resources and achieving the financial goals that have been set (Yuliana & Artati, 2022).

Good financial performance is usually characterized by steady revenue growth, healthy profit margins, prudent debt management, ample liquidity, and efficient asset management. Conversely, poor financial performance can indicate problems in financial management, low liquidity, weak operational performance, and other problems that need to be addressed to maintain the financial health of the entity.

Stock Return

Stock return, also known as return on equity (ROE), refers to the rate of return or profit generated by investing in the stock of a company. This is one of the important metrics used to measure how efficient a company is at generating profits for shareholders from the equity they have in the company. Stock returns provide a view of how well a company generates profits from the capital invested by shareholders (Marsintauli, 2019).

Return is one of the motivating factors and is also a reward for the courage of investors to bear the risk of the investment they make. High returns show that stocks have a high level of profit as well, so investors can use it as a benchmark when is the right time to invest with stock purchases or postpone investment so as not to experience losses (Hastuti, et, al., 2021). However, keep in mind that a high ROE doesn't necessarily mean a company is a good investment. There are other factors to consider, such as the risks associated with investing in the company's stock.

In addition, stock returns can also be affected by the company's debt policy. Using debt to finance operations or business expansion can increase shareholder equity, which in turn can increase ROE. However, this can also increase the company's financial risk. A high ROE is usually considered a sign that a company has the ability to generate greater returns from its shareholders' investments.

Inflation

(Hidayat, et, al., 2022) Inflation is a condition in which the prices of goods and services generally rise sustainably over a period of time. In economics, inflation is measured as the percentage increase in the consumer price index or producer price index from one period to the next. Inflation indicates a decrease in the purchasing power of money, which means that with the same amount of money, people can buy fewer goods and services. If production costs such as raw materials, labor, or energy rise, manufacturers may raise the price of their products to maintain profitability.

Inflation is a process of continuous price increases that cause a decrease in the value of currency and people's purchasing power. A one-time increase cannot be called inflation. Inflation is a problem that always receives attention from the government. Demand inflation occurs when demand for goods and services exceeds existing supply. When many people are willing to pay higher to get a scarce product, manufacturers can increase their prices (Nugraha & Wirama, 2022).

It is important to remember that a little inflation may be normal in a healthy economy, but high and runaway inflation can undermine economic stability. Therefore, central banks and governments often work together to keep inflation at a reasonable and stable level. If the central bank prints more money without any comparable growth in goods and services, this can lead to price increases.

Interest

Interest rates are fees or rewards charged or given for borrowing money or using money in a certain period. In simple terms, interest rate is a percentage of the loan or investment amount that must be paid or received as compensation for the use of money (Ernayani, et, al., 2022). Interest rates have an important role in the economy and financial markets. Central banks (such as the Federal Reserve in the United States or the European Central Bank) use interest rates as a tool to regulate the flow of money in the economy.

Interest rates influence investment and consumption decisions. Low interest rates tend to encourage lending and investment, while high interest rates tend to limit spending and borrowing. Higher interest rates in a country can attract foreign investors

looking for better returns. This can increase demand for the country's currency, which in turn can strengthen the value of the currency (Mourine & Septina, 2021).

Changes in interest rates can affect the performance of the stock, bond, and other financial markets. For example, rising interest rates can make existing bonds lower in value. It is important to understand interest rates and how they work, both as individuals taking out loans or saving, as well as part of a broader economic analysis.

Investment Risk

(Mufida & Manda, 2021) Investment risk is the level of potential loss arising from the expected investment returns that are not in line with expectations. What must be realized is that investment in addition to promising potential profits, can also cause losses. When going to invest, of course, you have to do careful calculations. Especially analyze more deeply about the risks that will occur. Loss-making investments mostly come from risk analysis that misses or is immature in calculating risk.

Investment risk refers to the possibility of financial losses or unexpected returns from a particular investment. In the context of investing, there is no guarantee that all investments will yield profits or positive returns. Investment risk describes variations or fluctuations in possible outcomes, and this can be influenced by various economic, financial, political, and market factors (Umar, et, al., 2022).

In investing a person will be faced with a risk called investment risk, so in investing one must consider the level of risk. Risk is the possible difference between the actual return received and the expected return. The more likely the difference, the greater the risk of the investment.

METHOD

The research method used is a research method with a quantitative assoative approach. Research methods with a quantitative associative approach are one of the commonly used approaches in scientific research to identify relationships or associations between two or more variables. This approach is often used in social, economic, and other science research involving the collection and analysis of numerical data. The main goal of the quantitative associative approach is to identify and measure the relationship between two or more variables. It can be a cause-and-effect relationship or a correlation between those variables. The results of this approach can be used to

make generalizations or inferences about the larger population, especially if the study is based on a representative sample.

The population used in this study is food and beverage companies listed on the Indonesia Stock Exchange which amounted to 54 companies. In this sampling technique, the author uses purposive sampling techniques. Where the sample taken from the population is determined based on the criteria that have been set in this study. Based on the criteria that have been set, a sample of 11 companies was obtained. Data analysis techniques in this study use descriptive analysis, panel data model selection, panel data testing methods, classical assumption tests, hypothesis tests, and path analysis tests.

RESULT

The Effect of Inflation on Stock Returns

The results of testing with regression analysis of panel data show that there is a significant influence between inflation and stock returns. In this case, the significance value (denoted as p-value) of the inflation coefficient is 0.0328. This significance value is a number that compares the statistical value of the test to a certain threshold, which is often taken as 0.05. Since the significance value (0.0328) is smaller than the general significance level (0.05), this indicates that there is sufficient evidence to reject the null hypothesis. In other words, these results show that inflation has a significant influence on stock returns within the framework of the research conducted.

This indicates that if inflation experiences a steady increase as in the study year, this means that inflation has a positive impact, which causes faster circulation and turnover of goods in the community so that the production of goods increases, and the profits of entrepreneurs increase. When inflation is controlled and followed by increased nominal income, people's real income increases. This is because risk and return move positively, so if there is an increase in inflation, prices will tend to rise, company profits will increase and investors will get higher returns. In addition, investors will benefit from capital gains as they profit from increased stock prices.

The Effect of Interest Rates on Stock Returns

The results of testing with regression analysis of panel data show that in the context studied, there is no significant influence between interest rates and stock returns. It is expressed from the resulting significance value (p-value), which is 0.1978, which is

greater than the significance level which is usually taken as 0.05. Since the significance value (0.1978) is greater than the general significance level (0.05), this indicates that there is insufficient evidence to reject the null hypothesis. In other words, this result implies that interest rates do not have a significant influence on stock returns within the framework of the study.

The rise and fall of interest rates does not influence investors to invest in the capital market. When interest rates decrease, investors will continue to invest or buy stocks that can provide optimal stock returns in food and beverage companies in 2017-2021. This is because food and beverage companies are most in demand by investors, so economic growth is significantly influenced by contributions from food and beverage companies. Food and beverage companies also provide and meet the basic needs of the market, therefore there will be many investors who are interested in investing.

The Effect of Investment Risk on Stock Return

The results of testing with regression analysis of panel data showed that within the framework of the research conducted, the beta value (regression coefficient) did not have a significant effect on stock returns. This is indicated by the resulting significance value (p-value), which is 0.7885, which is greater than the significance level generally taken as 0.05. With a significance value greater than 0.05, the accepted interpretation is that within the framework of the study and data used, there is no solid evidence to conclude that the beta value has a significant effect on stock returns.

This happens because the condition of the data that has been processed is different which states that systematic risk is related to changes that occur in the market as a whole, where market changes will affect the variability of return on an investment, meaning that if systematic risk increases, stock returns will also increase and vice versa, but in contrast to the condition of data in companies that are the research sample for the 2017-2020 period which shows that the data Systematic risk and stock return do not have a unidirectional relationship as the theory has been explained.

The Effect of Financial Performance on Stock Return

The results of testing with regression analysis of panel data show that, within the framework of the research conducted, financial performance does not have a significant effect on stock returns. This is indicated by the resulting significance value (p-value), which is 0.0557, which is slightly greater than the general significance level taken as

0.05. When the p-value is greater than the significance level (0.05), the generally accepted interpretation is that there is no solid evidence to reject the null hypothesis. The null hypothesis in this case is that financial performance does not have a significant effect on stock returns.

This result indicates that the amount of financial performance produced by the company does not have a significant effect on stock returns. This condition contradicts the underlying theory that financial performance shows the rate of return of net profits on net sales and at the same time shows the efficiency of costs incurred by the company. So if financial performance is greater or closer to one, it means that the more efficient the costs incurred so that the greater the rate of return on net profits, the more financial performance increases, the attractiveness of investors will increase so that the stock price will also increase.

The Effect of Inflation, Interest Rates, Investment Risk, and Financial Performance on Stock Returns

Based on the results of hypothesis testing that has been done, it was found that simultaneously (together), the variables of inflation, interest rates, beta value, and financial performance have a significant influence on stock returns. This result can be explained from the probability value of the F Test (F-Statistic) which is 0.043, which is smaller than the significance level set at 0.05. In the context of the F test, if the probability value (p-value) is smaller than the established significance level (usually 0.05), then there is sufficient evidence to reject the null hypothesis. The null hypothesis is There is no simultaneous effect of inflation, interest rate, beta value, and financial performance variables on stock returns. This shows that the independent variables together have a significant influence on the dependent variable (stock return) within the framework of the research conducted.

The results show that the variables inflation, interest rates, investment risk, and financial performance not only have an individual influence, but also have a joint or simultaneous influence on stock returns. The results showed that the impact found was not a mere coincidence. A significance value smaller than the established significance level (usually 0.05) indicates that these results have sufficient statistical evidence to reject the null hypothesis that there is no effect together. In other words, these results have a strong statistical basis. Knowing that inflation, interest rates, investment risk, and

financial performance have an impact together on stock returns can help companies and investors to manage risk more effectively. They can take steps to mitigate negative impacts and maximize the opportunities generated by those factors.

CONCLUSION

The results of this study show that in the context of the research conducted, factors such as inflation, interest rates, investment risk, and financial performance have a significant influence together on stock returns. In the series of tests conducted, there is strong evidence that the combination of these variables has a real impact on changes in stock returns. These findings suggest that factors traditionally thought to have an effect on stock performance, when analyzed together, have a greater impact than just analyzed individually. This suggests that a stock's performance is affected by complex dynamics involving various variables.

Investors and financial decision makers can learn lessons about the importance of portfolio diversification. Given that factors such as inflation, interest rates, investment risk, and financial performance have a significant influence on stock returns, diversification can help reduce the risk and negative impact of fluctuations in a single variable. These results can help investors and decision makers to design more effective investment strategies. They can consider aspects such as risk management, response to changes in interest rates and inflation, as well as efforts to improve the company's financial performance to maximize potential stock returns.

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