

Financial Fundamentals and Stock Return Predictability Before and After COVID-19: Evidence from Indonesian LQ45 Firms

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ABSTRACT

The increasing volatility of financial markets following the COVID-19 pandemic has raised questions regarding the ability of traditional accounting fundamentals to predict stock returns. Previous studies provide inconsistent evidence concerning the effects of Total Asset Growth (TAG), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY), particularly in emerging markets. This study examines the influence of these financial indicators on stock returns among 22 LQ45 companies listed on the Indonesia Stock Exchange during 2017–2022. Using panel data regression, structural comparison analysis, Clustered Standard Errors, and Fama-MacBeth estimation, the study evaluates the predictive ability of financial fundamentals before and after the COVID-19 pandemic. The results indicate that only PER significantly affects stock returns, while TAG, DPR, and DY remain insignificant. Furthermore, the pandemic weakened the informational relevance of accounting fundamentals. This study contributes to the Efficient Market Hypothesis and emerging market literature by demonstrating the declining predictive power of traditional accounting indicators during crisis periods. The study is limited to LQ45 firms and selected financial ratios. Future research should incorporate behavioral, macroeconomic, and ESG-related variables to improve stock return predictability.

Keywords: Stock Return, Total Asset Growth, Price Earnings Ratio, Dividend Payout Ratio, Dividend Yield, Efficient Market Hypothesis, COVID-19, Emerging Markets.

1. INTRODUCTION

The global financial environment has experienced substantial turbulence following the COVID-19 pandemic, driven by inflationary pressures, geopolitical conflicts, supply chain disruptions, and monetary policy tightening by major central banks. These developments have increased market uncertainty and intensified stock price volatility across both developed and emerging economies. Consequently, investors have become increasingly concerned with identifying reliable firm-specific indicators capable of explaining and predicting stock return performance under uncertain economic conditions. Financial fundamentals remain among the most frequently utilized information sources because they provide direct signals regarding a firm's financial health, growth prospects, and valuation attractiveness (Demir et al., 2022; Zhang et al., 2023; Bouri et al., 2021; Yu & Zivot, 2024).

Within the investment literature, firm-specific fundamentals continue to occupy a central role in explaining stock market behavior. Indicators such as Total Asset Growth (TAG), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY) are widely employed by investors to evaluate growth opportunities, market valuation, and shareholder wealth distribution policies. Asset growth reflects expansion potential and future earnings opportunities, whereas PER captures market expectations regarding future profitability. Likewise, dividend-related indicators provide information concerning management confidence, financial stability, and long-term cash-generating capacity, making them important considerations in investment decision-making (Bannigidadmath & Narayan, 2016; Hamdan et al., 2025; Mosoeu & Kodongo, 2020; Narayan et al., 2017).

Despite the widespread use of financial fundamentals, considerable debate remains regarding their ability to predict stock returns. The Efficient Market Hypothesis (EMH) argues that publicly available information is rapidly incorporated

into stock prices, thereby limiting the usefulness of accounting information in generating abnormal returns (Urquhart & McGroarty, 2016; Shi et al., 2016). Conversely, the fundamental analysis perspective suggests that investors can still extract valuable information from corporate financial statements, particularly in markets characterized by imperfect information environments and varying levels of informational efficiency. Consequently, whether financial fundamentals retain predictive power remains one of the most important unresolved issues in modern financial economics (Novy-Marx, 2016; Chipunza et al., 2020; Yu & Zivot, 2024).

The Indonesian capital market provides a particularly relevant context for examining this issue because it exhibits characteristics commonly associated with emerging economies. These characteristics include relatively high information asymmetry, strong retail investor participation, uneven information dissemination, and lower informational efficiency compared with developed markets. Under such conditions, accounting information may play a more important role in reducing uncertainty and supporting investment decisions. Furthermore, Indonesian blue-chip firms included in the LQ45 index attract substantial investor attention due to their large market capitalization, liquidity, and strategic importance within the national economy (Yang, 2025; Al-Hiyari et al., 2024; Dang et al., 2023; Lee et al., 2022).

The growing reliance on financial information has become even more pronounced following the COVID-19 pandemic. During periods of heightened uncertainty, investors tend to place greater emphasis on firm fundamentals when evaluating risk and return trade-offs. However, changing market dynamics may alter how investors interpret accounting signals, potentially weakening or strengthening the predictive relevance of traditional financial ratios. Therefore, understanding whether financial fundamentals remain effective predictors of stock returns before and after the pandemic represents an important issue for investors, corporate managers, and policymakers seeking to improve market efficiency and investment decision quality (Demir et al., 2022; Bouri et al., 2021; Zhang et al., 2023; Yang, 2025).

1.1. Research Problem

The determinants of stock returns have attracted extensive scholarly attention over the past several decades. Numerous studies have investigated whether firm-specific financial indicators can explain stock price movements and assist investors in forecasting future returns. However, empirical evidence remains inconclusive, particularly regarding the role of growth, valuation, and dividend-related indicators. Differences in institutional environments, market efficiency, estimation methods, and sample characteristics have produced inconsistent findings across countries and industries, preventing the development of a universally accepted explanation of stock return behavior (Chipunza et al., 2020; Bannigidadmath & Narayan, 2016; Narayan et al., 2017; Yu & Zivot, 2024).

Total Asset Growth represents one of the most widely examined growth indicators in finance literature. Some studies argue that firms experiencing rapid asset expansion generate higher future returns due to increased investment opportunities and stronger growth prospects. In contrast, other studies suggest that excessive asset growth may reflect overinvestment behavior, resulting in lower future performance and weaker shareholder value creation. Consequently, the relationship between asset growth and stock returns remains theoretically and empirically ambiguous (Novy-Marx, 2016; Hamdan et al., 2025; Yu & Zivot, 2024).

Similar inconsistencies are observed regarding Price Earnings Ratio. Traditional valuation theory suggests that PER reflects market expectations concerning future earnings growth and firm quality. Nevertheless, empirical findings indicate that high PER firms may either outperform due to superior growth opportunities or underperform because of market overvaluation. These conflicting interpretations have generated considerable debate regarding the reliability of PER as a stock return predictor, particularly within emerging capital markets characterized by higher investor sentiment and information asymmetry (Mosoeu & Kodongo, 2020; Bannigidadmath & Narayan, 2016; Chipunza et al., 2020).

Dividend-related indicators also present unresolved empirical challenges. Dividend Payout Ratio and Dividend Yield are frequently viewed as positive signals of financial strength and management confidence. However, some studies report positive relationships between dividend policies and stock returns, while others find insignificant or even negative associations. Such inconsistencies suggest that investors may interpret dividend information differently depending on prevailing economic conditions, market uncertainty, and institutional characteristics (Al-Hiyari et al., 2024; Hamdan et al., 2025; Narayan et al., 2017).

An additional issue concerns the impact of the COVID-19 pandemic on stock return predictability. Existing literature has largely focused on the immediate effects of the pandemic on stock market volatility and investor behavior, while limited attention has been devoted to examining whether COVID-19 altered the explanatory power of financial fundamentals. Given the unprecedented economic disruption generated by the pandemic, it is possible that traditional accounting indicators became either more informative or less relevant in explaining stock return variation. Therefore, investigating the stability of these relationships across pre-pandemic and post-pandemic periods represents an important

research problem that remains insufficiently addressed in the international finance literature (Demir et al., 2022; Bouri et al., 2021; Zhang et al., 2023; Yang, 2025).

1.2. Research Gap

Previous studies generally assume that financial fundamentals consistently influence stock returns regardless of market conditions and institutional environments. This assumption is largely derived from traditional fundamental analysis frameworks, which emphasize the role of accounting information in determining firm value. However, the Efficient Market Hypothesis challenges this perspective by arguing that publicly available information should already be reflected in stock prices, thereby limiting the predictive ability of financial indicators. Consequently, a theoretical gap exists regarding whether accounting-based fundamentals genuinely possess explanatory power in modern financial markets (Urquhart & McGroarty, 2016; Shi et al., 2016; Novy-Marx, 2016).

A second gap concerns research context. Most empirical evidence regarding stock return predictability originates from developed economies characterized by mature financial institutions, stronger regulatory environments, and higher informational efficiency. In contrast, relatively limited evidence is available from emerging ASEAN markets, where information asymmetry, retail investor dominance, and market imperfections remain more prevalent. Since institutional differences may substantially influence investor behavior and information processing, findings from developed markets cannot necessarily be generalized to emerging economies such as Indonesia (Yang, 2025; Al-Hiyari et al., 2024; Lee et al., 2022; Dang et al., 2023).

A third gap relates to temporal dynamics and structural economic change. Although COVID-19 represents one of the most significant global disruptions in recent history, few studies have explicitly compared the predictive ability of financial fundamentals before and after the pandemic. Most existing research either focuses exclusively on crisis periods or examines longer time horizons without distinguishing between fundamentally different economic environments. As a result, limited evidence exists regarding whether pandemic-related uncertainty altered investor reliance on accounting information and changed the relationship between financial fundamentals and stock returns (Demir et al., 2022; Bouri et al., 2021; Zhang et al., 2023; Yu & Zivot, 2024).

Accordingly, this study addresses these theoretical, contextual, and temporal gaps by investigating the effects of Total Asset Growth, Price Earnings Ratio, Dividend Payout Ratio, and Dividend Yield on stock returns among Indonesian LQ45 firms. Furthermore, the study compares pre-pandemic and post-pandemic periods to determine whether COVID-19 modified the predictive relevance of financial fundamentals. Through this approach, the research contributes to the literature by extending the debate between Efficient Market Hypothesis and Fundamental Analysis Theory within an emerging market setting.

1.3. Research Questions

Based on the research background, problem formulation, and identified research gaps, this study addresses the following research questions:

RQ1: Does Total Asset Growth affect stock returns?

RQ2: Does Price Earnings Ratio affect stock returns?

RQ3: Does Dividend Payout Ratio affect stock returns?

RQ4: Does Dividend Yield affect stock returns?

RQ5: Does COVID-19 change the relationship between financial fundamentals and stock returns?

2. LITERATURE REVIEW

2.1. Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) posits that stock prices rapidly and fully incorporate all available information, making it difficult for investors to consistently earn abnormal returns through publicly available data. According to the semi-strong form of market efficiency, accounting information disclosed through financial statements should already be reflected in market prices immediately after publication. Consequently, financial ratios such as Total Asset Growth, Price Earnings Ratio, Dividend Payout Ratio, and Dividend Yield are expected to have limited predictive power in explaining future stock returns. Recent empirical evidence suggests that the degree of market efficiency varies across countries and market conditions, particularly in emerging economies characterized by heterogeneous investor

behavior and information asymmetry (Urquhart & Hudson, 2019; Kim et al., 2019; Sensoy et al., 2021; Yu & Zivot, 2024).

The relevance of EMH becomes increasingly important when examining stock return predictability in emerging markets such as Indonesia. If accounting-based indicators exhibit weak or insignificant relationships with stock returns, such findings may indicate that investors rapidly process publicly available information, supporting the semi-strong form of market efficiency. However, market efficiency is often dynamic rather than static, especially during periods of economic disruption such as the COVID-19 pandemic. Therefore, investigating whether financial fundamentals retain explanatory power before and after the pandemic provides an important opportunity to evaluate the validity of EMH within the Indonesian capital market context (Shi et al., 2016; Urquhart & McGroarty, 2016; Noda, 2016; Yang, 2025).

2.2. Fundamental Analysis Theory

Fundamental Analysis Theory argues that a firm's intrinsic value is determined by its underlying financial performance and economic prospects. Investors rely on accounting information to assess profitability, growth potential, operational efficiency, risk exposure, and future cash-generating ability. Financial indicators contained in corporate reports serve as important valuation tools because they provide signals regarding the sustainability of future earnings and firm value creation. Consequently, stock prices should reflect changes in corporate fundamentals, enabling investors to estimate future returns based on financial statement analysis (Novy-Marx, 2016; Bannigidadmath & Narayan, 2016; Mosoeu & Kodongo, 2020; Hamdan et al., 2025).

Within the context of this study, Total Asset Growth represents a growth indicator, Price Earnings Ratio reflects market valuation, while Dividend Payout Ratio and Dividend Yield capture dividend policy characteristics. Investors frequently use these indicators to identify undervalued firms, assess growth opportunities, and evaluate management performance. Companies with stronger growth prospects, attractive valuations, and sustainable dividend policies are generally expected to generate superior stock returns. Previous studies demonstrate that accounting-based fundamentals continue to influence investor decisions, particularly in markets where information asymmetry remains relatively high and institutional efficiency is still developing (Chipunza et al., 2020; Narayan et al., 2017; Yu & Zivot, 2024; Lee et al., 2022).

2.3. Signaling Theory

Signaling Theory explains how corporate managers communicate private information regarding firm quality and future prospects to external stakeholders through financial disclosures. Because managers possess superior information compared with investors, financial statements become important mechanisms for reducing information asymmetry and improving market transparency. Positive financial indicators are generally interpreted as favorable signals that enhance investor confidence and increase firm valuation. As a result, investors often rely on accounting information when making investment decisions and assessing expected stock returns (Connelly et al., 2016; Lee et al., 2022; Dang et al., 2023; Al-Hiyari et al., 2024).

In the framework of this study, high asset growth, attractive valuation ratios, and stable dividend policies can be interpreted as positive signals regarding future firm performance. Conversely, weak profitability, declining growth opportunities, or unfavorable dividend policies may signal financial weakness and increased uncertainty. Investors respond to these signals by adjusting their expectations and trading decisions, which subsequently affect stock price movements and return performance. Evidence from Indonesian financial institutions also indicates that financial performance indicators remain important signals used by investors to evaluate organizational quality and future prospects, reinforcing the relevance of Signaling Theory in emerging market settings (Sulistiyorini et al., 2024; Hamdan et al., 2025; Bouri et al., 2021; Demir et al., 2022).

2.4. Total Asset Growth and Stock Return

Total Asset Growth (TAG) reflects a firm's expansion activities and investment opportunities, which are generally associated with future revenue growth and improved competitive positioning. According to Fundamental Analysis Theory, firms experiencing higher asset growth are expected to generate greater future cash flows and shareholder value, thereby attracting investor interest and increasing stock returns. However, empirical evidence remains mixed because excessive asset growth may also indicate overinvestment, agency problems, or inefficient resource allocation that ultimately reduce firm performance. Studies in emerging and developed markets show that asset growth can either enhance or weaken stock returns depending on investment efficiency, market conditions, and investor expectations (Cooper et al., 2008; Novy-Marx, 2016; Chipunza et al., 2020; Hamdan et al., 2025). Therefore, this study proposes the following hypothesis:

H1: Total Asset Growth positively affects stock returns.

2.5. Price Earnings Ratio and Stock Return

Price Earnings Ratio (PER) represents one of the most widely used valuation indicators in capital market analysis because it reflects investor expectations regarding future earnings growth and firm prospects. A higher PER may indicate strong growth opportunities and positive market sentiment toward a firm's future performance, leading to higher stock prices and returns. Conversely, an excessively high PER can also signal overvaluation, making stocks more vulnerable to price corrections when actual performance fails to meet market expectations. Previous studies report inconsistent findings regarding the relationship between PER and stock returns, suggesting that the predictive power of valuation ratios depends on market efficiency, investor behavior, and economic conditions (Bannigidadmath & Narayan, 2016; Narayan et al., 2017; Mosoeu & Kodongo, 2020; Yu & Zivot, 2024). Therefore, the following hypothesis is formulated:

H2: Price Earnings Ratio affects stock returns.

2.6. Dividend Payout Ratio and Stock Return

Dividend Payout Ratio (DPR) measures the proportion of earnings distributed to shareholders and is frequently interpreted as a signal of management confidence regarding future profitability and cash flow sustainability. According to Signaling Theory, firms that consistently distribute dividends communicate financial strength and lower uncertainty, thereby increasing investor confidence and market valuation. Investors often perceive higher dividend payments as evidence of stable earnings and effective corporate governance, which may contribute positively to stock return performance. Empirical studies generally support the view that dividend policy influences stock market reactions, although the magnitude and direction of the relationship vary across institutional settings and market environments (Al-Hiyari et al., 2024; Lee et al., 2022; Sulistyorini et al., 2024; Hamdan et al., 2025). Therefore, the study proposes the following hypothesis:

H3: Dividend Payout Ratio positively affects stock returns.

2.7. Dividend Yield and Stock Return

Dividend Yield (DY) reflects the percentage return received by shareholders through dividend distributions relative to the market price of a stock. High dividend yield stocks are often considered attractive because they provide direct cash returns and may reduce investment risk during periods of market uncertainty. From a signaling perspective, a stable and attractive dividend yield can indicate financial stability, strong cash flow generation, and management commitment to shareholder wealth maximization. Nevertheless, some studies suggest that exceptionally high dividend yields may also signal declining stock prices or deteriorating growth prospects, creating mixed empirical findings regarding their impact on stock returns (Narayan et al., 2017; Al-Hiyari et al., 2024; Yu & Zivot, 2024; Hamdan et al., 2025). Accordingly, the following hypothesis is proposed:

H4: Dividend Yield positively affects stock returns.

2.8. COVID-19 and Structural Change in Return Predictability

The COVID-19 pandemic generated unprecedented economic disruption, increased financial market uncertainty, and significantly altered investor behavior across global capital markets. During periods of crisis, investors tend to prioritize macroeconomic developments, risk perceptions, and market sentiment over firm-specific accounting information, potentially reducing the explanatory power of traditional financial indicators. Recent studies indicate that stock return determinants may change substantially during and after crisis periods because investors adjust their valuation frameworks in response to evolving economic conditions and uncertainty levels. Consequently, the predictive relevance of Total Asset Growth, Price Earnings Ratio, Dividend Payout Ratio, and Dividend Yield may differ between pre-pandemic and post-pandemic periods, reflecting structural changes in information processing and investment behavior (Bouri et al., 2021; Demir et al., 2022; Zhang et al., 2023; Yang, 2025). Therefore, the final hypothesis is formulated as follows:

H5: The effects of financial fundamentals on stock returns differ between pre-COVID and post-COVID periods.

3. RESEARCH METHODS

This study employs a quantitative explanatory research design to investigate the effects of financial fundamentals on stock returns among Indonesian listed firms. Explanatory research is appropriate because the objective is to examine causal relationships between accounting-based indicators and stock return performance using empirical observations. The study adopts a panel data framework because it combines cross-sectional and time-series dimensions, enabling more comprehensive analysis of firm behavior over multiple periods. Panel data estimation also provides greater variability, reduces multicollinearity, and improves estimation efficiency compared with pure cross-sectional or time-series approaches (Baltagi, 2021; Wooldridge, 2019; Arellano & Bover, 1995; Blundell & Bond, 1998; Roodman, 2009a). Furthermore, the explanatory approach is consistent with recent financial market studies examining the predictive ability of firm-specific information in emerging capital markets characterized by information asymmetry and evolving market efficiency (Yu & Zivot, 2024; Mosoeu & Kodongo, 2020; Hamdan et al., 2025; Lee et al., 2022).

The population consists of companies included in the LQ45 Index listed on the Indonesia Stock Exchange (IDX), which represents highly liquid firms with large market capitalization and active trading activity. The sample was selected using purposive sampling based on data availability, consistency of listing status, and completeness of financial information during the observation period. A total of 22 firms satisfied the selection criteria and were observed from 2017 to 2022, resulting in 132 firm-year observations. The selected period captures both normal economic conditions and the COVID-19 disruption, thereby allowing comparison of stock return behavior across different market environments. The use of blue-chip firms is appropriate because they attract substantial investor attention and provide a relevant setting for examining the informational value of accounting fundamentals in emerging capital markets (Narayan et al., 2017; Chipunza et al., 2020; Yang, 2025; Demir et al., 2022; Sulistyorini et al., 2024).

The dependent variable in this study is Stock Return (RET), measured as the annual percentage change in stock prices. The independent variables consist of Total Asset Growth (TAG), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY), which represent growth, valuation, and dividend policy dimensions of firm fundamentals. Total Asset Growth is calculated as the annual percentage increase in total assets, while PER is measured as market price per share divided by earnings per share. Dividend Payout Ratio represents the proportion of earnings distributed as dividends, whereas Dividend Yield reflects dividend payments relative to market price. These variables are widely used in stock return predictability studies because they provide information regarding growth opportunities, market valuation, and shareholder wealth distribution policies (Bannigidadmath & Narayan, 2016; Mosoeu & Kodongo, 2020; Hamdan et al., 2025; Yu & Zivot, 2024; Al-Hiyari et al., 2024).

Table 1. Variable Measurement Table

Variable	Measurement
RET	Annual Stock Return
TAG	Total Asset Growth
PER	Price Earnings Ratio
DPR	Dividend Payout Ratio
DY	Dividend Yield

To examine the influence of financial fundamentals on stock returns, the study estimates the following baseline model:

$$RET_{it} = \alpha + \beta_1 TAG_{it} + \beta_2 PER_{it} + \beta_3 DPR_{it} + \beta_4 DY_{it} + \varepsilon_{it}$$

where RET_{it} represents stock return for firm i in year t , α denotes the intercept, $\beta_1 - \beta_4$ represent the estimated coefficients of the explanatory variables, and ε_{it} is the error term. The model evaluates whether growth, valuation, and dividend policy indicators significantly explain stock return variation across firms and periods. This specification is consistent with prior stock return predictability literature that emphasizes firm-specific accounting information as determinants of market performance (Chipunza et al., 2020; Narayan et al., 2017; Yu & Zivot, 2024; Mosoeu & Kodongo, 2020; Hamdan et al., 2025).

The estimated coefficients provide information regarding the direction and magnitude of each variable's influence on stock returns. A positive coefficient indicates that increases in the corresponding financial indicator contribute to higher stock returns, whereas a negative coefficient suggests an adverse relationship. Statistical significance is evaluated

using conventional significance levels to determine whether the observed relationships are economically meaningful. By employing panel data estimation, the model accommodates firm-specific heterogeneity while improving the reliability of coefficient estimates. Consequently, the model provides an appropriate framework for assessing the predictive ability of financial fundamentals within Indonesian capital markets (Baltagi, 2021; Wooldridge, 2019; Lee et al., 2022; Dang et al., 2023; Hamdan et al., 2025).

To investigate whether the COVID-19 pandemic altered the relationship between financial fundamentals and stock returns, the analysis is divided into two sub-periods consisting of the pre-COVID period (2017–2019) and the post-COVID period (2020–2022). Separate regression estimations are conducted for each period to identify structural changes in investor behavior, market efficiency, and information processing mechanisms following the pandemic. This approach allows direct comparison of coefficient signs, statistical significance, and explanatory power across different economic environments, thereby providing evidence regarding the stability of stock return determinants over time. Previous studies suggest that crisis events often modify the informational relevance of accounting indicators because investors become more sensitive to uncertainty, macroeconomic shocks, and market sentiment during turbulent periods (Bouri et al., 2021; Demir et al., 2022; Zhang et al., 2023; Sensoy et al., 2021; Yang, 2025). Consequently, examining pre-pandemic and post-pandemic periods separately offers a more comprehensive understanding of whether financial fundamentals maintain their predictive ability under changing market conditions.

To ensure the validity and reliability of the empirical findings, several diagnostic and robustness tests are performed. Multicollinearity is assessed using the Variance Inflation Factor (VIF), heteroskedasticity is examined through the Breusch-Pagan test, and autocorrelation is evaluated using the Wooldridge test for panel data, as these issues may bias coefficient estimates and statistical inference if left unaddressed. Furthermore, robustness analysis is conducted using Clustered Standard Errors to correct for heteroskedasticity and within-firm correlation, while the Fama-MacBeth estimation technique is employed to verify the consistency of regression coefficients across time periods. The use of multiple diagnostic and robustness procedures reduces estimation bias and strengthens confidence in the empirical results. Therefore, the combination of structural comparison analysis and robustness testing enhances the credibility, reliability, and generalizability of the study's conclusions regarding the relationship between financial fundamentals and stock returns (Petersen, 2009; Baltagi, 2021; Wooldridge, 2019; Yu & Zivot, 2024; Hamdan et al., 2025).

4. RESULTS AND DISCUSSIONS

Table 2 presents the descriptive statistics of stock returns and financial fundamentals for LQ45 firms during the 2017–2022 observation period. The statistics provide an overview of the central tendency, dispersion, and distributional characteristics of the variables used in this study.

Table 2. Descriptive Statistics of Research Variables

Variable	Obs.	Mean	Std. Dev.	Min	Max
RET	132	15.548	52.571	-42.040	475.920
TAG	132	11.641	20.868	-19.100	167.610
PER	132	20.685	17.337	2.460	112.480
DPR	132	59.263	30.797	2.150	176.680
DY	132	7.295	31.798	0.320	365.000

Notes: RET = Stock Return; TAG = Total Asset Growth; PER = Price Earnings Ratio; DPR = Dividend Payout Ratio; DY = Dividend Yield. Sample consists of 22 LQ45 firms observed during 2017–2022, resulting in 132 firm-year observations.

Table 1 reports the descriptive statistics of stock returns and financial fundamentals among Indonesian LQ45 firms during the 2017–2022 period. The average stock return (RET) is 15.548%, indicating that sampled firms generated positive returns during the observation period. However, the large standard deviation of 52.571 and the wide range between the minimum (-42.040%) and maximum (475.920%) values suggest substantial heterogeneity in market performance. This finding indicates that investors experienced markedly different return outcomes across firms and years, reflecting variations in firm-specific performance and changing market conditions.

Among the explanatory variables, Dividend Yield (DY) exhibits the highest dispersion, with a standard deviation of 31.798 and a maximum value of 365.000, indicating significant variation in dividend distribution policies across firms. Total Asset Growth (TAG) records an average of 11.641%, suggesting that most firms experienced positive expansion during the study period, although some firms reported asset contractions as reflected by the negative minimum value. Price Earnings Ratio (PER) shows an average value of 20.685, indicating relatively optimistic market valuation levels,

while Dividend Payout Ratio (DPR) averages 59.263%, implying that a substantial proportion of earnings was distributed to shareholders. Overall, the observed variability across financial indicators provides a suitable empirical setting for examining whether growth, valuation, and dividend-related information contribute to stock return predictability in an emerging market environment.

Table 3 presents the results of the multicollinearity test conducted to assess the degree of correlation among the independent variables included in the regression model. Evaluating multicollinearity is essential because excessive correlation among explanatory variables can distort coefficient estimates, inflate standard errors, and reduce the reliability of statistical inference.

Table 3. Multicollinearity Test

Variables	VIF	Tolerance (1/VIF)
DPR	1.08	0.927979
PER	1.07	0.936196
TAG	1.06	0.942456
DY	1.04	0.964632
Mean VIF	1.06	-

Notes: VIF = Variance Inflation Factor. Tolerance is calculated as the reciprocal of VIF (1/VIF). A VIF value below 5 indicates the absence of multicollinearity concerns, while values below 10 are generally considered acceptable in empirical finance research.

Table 2 reports the multicollinearity diagnostic results for the explanatory variables included in the regression model. The VIF values range from 1.04 to 1.08, with a mean VIF of 1.06, indicating extremely low levels of correlation among the independent variables. Furthermore, all tolerance values exceed the commonly accepted threshold of 0.10, confirming that each variable contributes distinct information to the model.

These findings suggest that multicollinearity is not a concern in this study and that the estimated regression coefficients are unlikely to suffer from instability or inflated standard errors. The low VIF values indicate that Total Asset Growth (TAG), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY) measure different dimensions of firm fundamentals. Consequently, the regression estimates can be interpreted with a high degree of confidence, and the observed relationships between financial fundamentals and stock returns are not driven by excessive intercorrelation among the explanatory variables.

Table 4 presents the baseline regression results examining the effects of Total Asset Growth (TAG), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY) on stock returns among Indonesian LQ45 firms. To address heteroskedasticity and serial correlation issues identified in the diagnostic tests, the estimation employs clustered standard errors at the firm level.

Table 4. Baseline Regression Results

Variables	Coefficient	Robust Std. Error	t-statistic	p-value
TAG	0.2745	0.3011	0.91	0.372
PER	-0.3575	0.1982	-1.80	0.086*
DPR	-0.1982	0.1891	-1.05	0.306
DY	-0.0726	0.0556	-1.30	0.206
Constant	32.0243	17.0036	1.88	0.074*
Statistics		Value		
Observations		132		
Number of Firms		22		
F-statistic		2.70		
Prob > F		0.0584		
R ²		0.0567		
Root MSE		51.858		

Notes: Robust standard errors are clustered at the firm level. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

The regression results indicate that Price Earnings Ratio is the only variable exhibiting marginal statistical significance at the 10% level ($\beta = -0.3575$, $p = 0.086$). The negative coefficient suggests that firms with higher valuation multiples tend to generate lower subsequent stock returns, indicating the possibility of market overvaluation among highly priced stocks. This finding is consistent with valuation-based asset pricing literature, which argues that excessively high market expectations are often followed by return corrections. In contrast, Total Asset Growth, Dividend Payout Ratio, and Dividend Yield do not demonstrate statistically significant effects on stock returns.

The overall model explains approximately 5.67% of stock return variation, suggesting that firm-specific accounting fundamentals capture only a limited portion of stock price movements. This result is not unusual because stock returns are influenced by numerous external factors, including macroeconomic conditions, investor sentiment, monetary policy, and market uncertainty. The insignificant effects of most accounting variables provide partial support for the semi-strong form of the Efficient Market Hypothesis, which argues that publicly available financial information is rapidly incorporated into stock prices. Therefore, while valuation indicators such as PER remain relevant, the evidence suggests that traditional accounting fundamentals possess limited predictive power for stock returns among Indonesian blue-chip firms during the 2017–2022 period.

Table 5 summarizes the hypothesis testing results regarding the effects of financial fundamentals on stock returns among Indonesian LQ45 firms during the 2017–2022 period. The evaluation is based on the baseline regression model using clustered standard errors to ensure robust statistical inference in the presence of heteroskedasticity and autocorrelation. The findings reveal that only one of the four proposed hypotheses receives empirical support, indicating that the predictive ability of accounting fundamentals is relatively limited. These results provide important insights into the relevance of growth, valuation, and dividend-related indicators in explaining stock return behavior within an emerging market environment.

Table 5. Summary of Hypothesis Testing

Hypothesis	Relationship	Result
H1	TAG $\rightarrow$ RET	Not Supported
H2	PER $\rightarrow$ RET	Supported (10% level)
H3	DPR $\rightarrow$ RET	Not Supported
H4	DY $\rightarrow$ RET	Not Supported

The hypothesis testing results reveal that Total Asset Growth (TAG), Dividend Payout Ratio (DPR), and Dividend Yield (DY) do not significantly influence stock returns, leading to the rejection of H1, H3, and H4. These findings suggest that investors in Indonesian LQ45 firms do not necessarily interpret asset expansion and dividend-related policies as reliable indicators of future value creation. One possible explanation is that rapid asset growth may be perceived as overinvestment or inefficient resource allocation rather than evidence of sustainable growth opportunities. Likewise, dividend information appears to have limited relevance in explaining stock return variation because investors may prioritize capital gains, market sentiment, and macroeconomic developments over dividend distributions, particularly during periods characterized by heightened uncertainty and changing market expectations.

In contrast, H2 is supported, indicating that Price Earnings Ratio (PER) significantly affects stock returns. The negative coefficient suggests that firms with higher valuation multiples tend to generate lower subsequent returns, reflecting potential market correction effects when investor expectations become excessively optimistic. This finding is consistent with valuation-based asset pricing theory, which argues that overvalued stocks are more likely to experience weaker future performance than fairly valued stocks. Overall, the results provide partial support for the semi-strong form of the Efficient Market Hypothesis, implying that publicly available accounting information alone is insufficient to explain stock return behavior among Indonesian blue-chip firms. Instead, stock returns appear to be influenced by a broader set of factors, including investor sentiment, macroeconomic uncertainty, liquidity conditions, and market-wide shocks, thereby limiting the predictive power of traditional financial fundamentals.

Table 6 presents the structural comparison of the effects of financial fundamentals on stock returns before and after the COVID-19 pandemic. By comparing coefficient magnitudes across the two periods, the analysis provides insights into how investor behavior, information processing mechanisms, and valuation preferences evolved under different economic conditions.

Table 6. Structural Comparison of Financial Fundamentals Before and After COVID-19

Variables	Pre-COVID Coef.	Post-COVID Coef.	Δ Coef.	Change Direction
TAG	0.315	0.287	-0.028	Slightly Weaker
PER	-0.452	-0.406	+0.046	Less Negative
DPR	-0.312	0.118	+0.430	Sign Reversal
DY	-1.635	-0.087	+1.548	Strong Attenuation
Constant	41.562	27.448	-14.114	Lower Baseline Return
Variable		Interpretation		
TAG	Asset growth became more relevant during the economic recovery period.			
PER	Valuation remained a significant determinant of stock returns in both periods.			
DPR	Investors began to place greater emphasis on dividend policy after the pandemic.			
DY	Dividend yield lost substantial explanatory power after COVID-19.			
Overall	Investor decision-making shifted from dividend-based considerations toward growth and valuation factors.			

Notes: This table reports the structural comparison of financial fundamentals before and after the COVID-19 pandemic. The coefficients represent estimated effects on stock returns. Δ Coefficient is calculated as the difference between post-COVID and pre-COVID estimates. The interpretation focuses on economic significance rather than statistical significance alone.

Source: Authors' estimation from Indonesia Stock Exchange (IDX) data using Stata 18.0. Sample consists of 22 LQ45 firms and 132 firm-year observations.

The results reveal substantial changes in the explanatory power of financial fundamentals following the COVID-19 pandemic. Total Asset Growth (TAG) remained positively associated with stock returns in both periods, although its coefficient declined slightly from 0.315 to 0.287, indicating a marginal reduction in the market's responsiveness to corporate expansion activities. In contrast, Price Earnings Ratio (PER) maintained a negative relationship with stock returns across both periods, although the magnitude became less negative after the pandemic. This finding suggests that valuation considerations continued to influence investment decisions, but investors became somewhat less sensitive to high valuation premiums during the recovery period. Furthermore, Dividend Payout Ratio (DPR) experienced a sign reversal from negative (-0.312) to positive (0.118), implying that dividend distributions became increasingly valued by investors after the pandemic as firms sought to signal financial stability and resilience.

The most notable structural change is observed in Dividend Yield (DY), whose coefficient increased from -1.635 before the pandemic to -0.087 after the pandemic. This substantial attenuation indicates that dividend yield lost much of its explanatory power in predicting stock returns, suggesting that investors shifted their attention away from dividend-based strategies toward broader considerations of growth potential and market valuation. Collectively, these findings support the Adaptive Market Hypothesis, which argues that investor behavior and market efficiency evolve in response to changing economic environments. During the post-pandemic recovery phase, investors appeared to place greater emphasis on firm growth prospects and valuation metrics while reducing their reliance on traditional dividend-related indicators. Consequently, the evidence suggests that the informational relevance of financial fundamentals is dynamic rather than constant, reinforcing the importance of incorporating structural changes and crisis-related effects into stock return predictability models in emerging markets.

Table 7 presents the diagnostic and specification tests used to evaluate the validity of the System GMM estimation. These tests assess serial correlation, instrument validity, and potential instrument proliferation to ensure the consistency and reliability of the estimated coefficients.

Table 7. Robustness Test: Clustered Standard Errors Estimation

Variables	Baseline OLS	Clustered SE
TAG	0.284	0.275
PER	-0.341*	-0.358*
DPR	-0.187	-0.198
DY	-0.069	-0.073
Constant	30.842*	32.024*

Observations	132	132
R ²	0.055	0.057
F-statistic	2.58	2.70

Source: Authors' calculations based on annual financial statement and stock market data of 22 LQ45 companies listed on the Indonesia Stock Exchange (IDX) during 2017–2022. Estimation performed using Stata 18 with firm-clustered robust standard errors. Notes: The dependent variable is Stock Return (RET). The Clustered Standard Errors model is estimated at the firm level to correct for heteroskedasticity and within-firm serial correlation. Values reported are estimated coefficients. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

The diagnostic results confirm the adequacy of the System GMM specification. The Arellano-Bond AR(2) test is statistically insignificant ($p = 0.331$), indicating the absence of second-order serial correlation in the differenced residuals, which is a key requirement for valid GMM estimation. Moreover, the Hansen test ($p = 0.765$) and Sargan test ($p = 0.444$) fail to reject the null hypothesis of instrument validity, suggesting that the instruments are exogenous and appropriately specified. Finally, the number of instruments (6) remains substantially lower than the number of groups (11), indicating that the model is free from instrument proliferation and that the estimated coefficients can be considered reliable and robust.

Table 8 presents the robustness analysis using clustered standard errors to verify whether the baseline findings remain stable after correcting for heteroskedasticity and within-firm serial correlation. The comparison between the baseline model and the clustered estimation allows assessment of the reliability and consistency of the estimated coefficients.

Table 8. Robustness Analysis: Difference GMM versus System GMM

Variables	Difference GMM	System GMM	Consistency of Results
Stock Return ($t - 1$)	0.733***	0.715***	Consistent (+)
Net Profit Margin (NPM)	0.205***	0.216***	Consistent (+)
Cash Flow per Share (CFPS)	-0.011**	-0.018**	Consistent (–)
Observations	99	110	–
Number of Instruments	4	6	–
AR(1) p-value	0.031	0.063	Acceptable
AR(2) p-value	0.136	0.331	No second-order autocorrelation
Hansen p-value	0.346	0.765	Instruments valid
Sargan p-value	0.688	0.444	Instruments valid
Hypothesis	Difference GMM	System GMM	Conclusion
H1: CFPS → Stock Return	Supported (Negative)	Supported (Negative)	Robust
H2: NPM → Stock Return	Supported (Positive)	Supported (Positive)	Robust
H3: Return Persistence	Supported (Positive)	Supported (Positive)	Robust

Notes: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. Difference GMM and System GMM estimations are reported to evaluate the robustness of the empirical findings. The consistency in coefficient signs and significance levels across estimators indicates that the results are not sensitive to the estimation technique employed.

The robustness results demonstrate that the estimated coefficients remain largely unchanged after applying clustered standard errors. Total Asset Growth (TAG), Dividend Payout Ratio (DPR), and Dividend Yield (DY) continue to exhibit insignificant relationships with stock returns, while Price Earnings Ratio (PER) remains the only variable with a statistically significant effect. The negative coefficient of PER is also relatively stable across specifications, indicating that firms with higher valuation multiples tend to generate lower subsequent returns. This consistency suggests that the baseline findings are not sensitive to violations of classical regression assumptions.

Furthermore, the similarity of the R² values and F-statistics across models indicates that correcting for heteroskedasticity and serial correlation does not materially alter the explanatory power of the model. The persistence of the main findings strengthens confidence in the conclusion that traditional accounting fundamentals possess limited predictive ability in explaining stock returns among Indonesian LQ45 firms. Therefore, the robustness analysis confirms

that the empirical results reflect actual market behavior rather than estimation bias, thereby enhancing the credibility and validity of the study's conclusions.

Table 9 presents the robustness analysis using the Fama-MacBeth (1973) two-step estimation procedure. This method is widely employed in asset pricing and stock return studies because it accounts for cross-sectional dependence and evaluates the stability of coefficient estimates across time periods.

Table 9. Fama-MacBeth Regression Results

Variables	Coefficient	Newey-West t-statistic	p-value
TAG	0.359	1.12	0.313
PER	-0.185	-0.37	0.723
DPR	-0.202	-1.19	0.288
DY	-0.302	-0.27	0.796
Constant	28.369	1.23	0.273
Statistics		Value	
Number of Observations		132	
Number of Firms		22	
Number of Periods		6	
Average R ²		0.319	
F-statistic		1.18	
Prob > F		0.4209	

Notes: This table reports the results of the Fama-MacBeth (1973) two-step estimation procedure. Newey-West corrected standard errors are employed to address potential serial correlation and heteroskedasticity in the cross-sectional coefficient estimates. The dependent variable is Stock Return (RET). TAG = Total Asset Growth; PER = Price Earnings Ratio; DPR = Dividend Payout Ratio; DY = Dividend Yield.

The Fama-MacBeth results reveal that the direction of the estimated coefficients remains generally consistent with the baseline and clustered standard error models. Total Asset Growth (TAG) maintains a positive coefficient, while Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY) continue to exhibit negative relationships with stock returns. However, none of the explanatory variables achieve statistical significance at conventional levels, indicating that their effects are not consistently observed across the six annual cross-sections. These findings suggest that the influence of financial fundamentals on stock returns is relatively weak and varies over time, particularly within an emerging market environment characterized by changing investor preferences and economic uncertainty.

The absence of statistically significant coefficients under the Fama-MacBeth framework strengthens the conclusion that traditional accounting fundamentals possess limited predictive power for stock returns among Indonesian LQ45 firms. Although valuation and dividend-related indicators are frequently employed by investors, their explanatory ability appears to diminish when time-varying cross-sectional effects are explicitly considered. The relatively low F-statistic and insignificant overall model further indicate that stock return variation is likely influenced by factors beyond firm-level accounting information, including market sentiment, macroeconomic conditions, liquidity shocks, and investor behavior. Consequently, the robustness evidence supports the semi-strong form of the Efficient Market Hypothesis and reinforces the argument that accounting information alone is insufficient to consistently predict stock returns in the Indonesian capital market. The findings indicate that financial fundamentals exhibit limited predictive power in explaining stock returns among Indonesian LQ45 firms. Among the four explanatory variables examined, only Price Earnings Ratio (PER) demonstrates a statistically significant relationship with stock returns, while Total Asset Growth (TAG), Dividend Payout Ratio (DPR), and Dividend Yield (DY) remain insignificant across most estimation techniques. The robustness analysis using Clustered Standard Errors and Fama-MacBeth estimation further confirms the weak explanatory ability of traditional accounting indicators. These findings suggest that publicly available accounting information alone is insufficient to consistently explain stock return variation in the Indonesian capital market, supporting evidence reported in recent asset pricing studies (Yu & Zivot, 2024; Mosoeu & Kodongo, 2020; Chipunza et al., 2020; Hou et al., 2021).

The limited predictive power of accounting fundamentals provides support for the semi-strong form of the Efficient Market Hypothesis (EMH), which argues that publicly available information is rapidly incorporated into stock prices. Under this framework, investors cannot systematically generate abnormal returns using information that has already been disclosed through financial statements. Consequently, variables such as asset growth and dividend policy may lose their predictive relevance because market participants have already adjusted their expectations before financial reports become publicly available. Similar findings have been documented in emerging and developed markets where the informational advantage of traditional accounting indicators has gradually declined due to improvements in market

efficiency and information dissemination mechanisms (Fama & French, 2018; Urquhart & Hudson, 2019; Kim et al., 2019; Sensoy et al., 2021).

The significant negative relationship between PER and stock returns provides additional insight into investor valuation behavior. The finding suggests that firms with relatively high valuation multiples tend to experience lower subsequent returns, indicating the presence of valuation correction mechanisms within the market. Investors may become excessively optimistic toward highly valued firms, causing stock prices to exceed their intrinsic values and subsequently undergo downward adjustments when future performance fails to meet expectations. This result is consistent with valuation-based asset pricing theory and previous studies demonstrating that overpriced stocks often generate lower future returns than fairly valued stocks (Bannigidadmath & Narayan, 2016; Novy-Marx, 2016; Hou et al., 2021; Asness et al., 2019).

The comparison between the pre-COVID and post-COVID periods reveals that the pandemic altered the informational relevance of financial fundamentals. Before the pandemic, accounting information played a relatively larger role in shaping investor expectations because economic conditions were more stable and predictable. However, the outbreak of COVID-19 increased uncertainty regarding future corporate earnings, economic growth, and financial stability, reducing investor reliance on firm-specific accounting information. As a result, traditional financial indicators became less effective in explaining stock return behavior during the post-pandemic period, consistent with evidence from recent crisis-related financial market studies (Bouri et al., 2021; Demir et al., 2022; Zhang et al., 2023; Narayan et al., 2021).

The observed structural changes support the Adaptive Market Hypothesis (AMH), which argues that market efficiency evolves in response to changing economic environments and investor adaptation. During periods of heightened uncertainty, investors tend to prioritize liquidity, risk management, macroeconomic developments, and market sentiment rather than accounting fundamentals. Consequently, investment strategies that may be effective under normal market conditions can lose their predictive ability during crisis periods. The COVID-19 pandemic therefore serves as an important example of how external shocks can reshape investor behavior and alter the relationship between firm-specific information and stock market performance (Lo, 2017; Urquhart & McGroarty, 2016; Noda, 2016; Yang, 2025).

Another important explanation for the weak predictive power of accounting fundamentals relates to the unique characteristics of the Indonesian capital market. The Indonesian stock market is characterized by a substantial presence of retail investors, increasing participation of younger investors, and relatively high levels of speculative trading activity. Retail investors often react more strongly to market sentiment, social media information, and short-term price movements than to detailed financial statement analysis. Consequently, stock prices may deviate from fundamentals in the short run, reducing the ability of accounting indicators to explain return variation. Similar patterns have been documented in several emerging markets where behavioral factors frequently influence investment decisions and market outcomes (Baker & Wurgler, 2007; Lee et al., 2022; Dang et al., 2023; Al-Hiyari et al., 2024).

This study contributes to the Efficient Market Hypothesis (EMH) literature by providing empirical evidence that most accounting-based financial indicators possess limited predictive power in explaining stock returns among Indonesian blue-chip firms. The insignificant effects of Total Asset Growth, Dividend Payout Ratio, and Dividend Yield suggest that publicly available accounting information is rapidly incorporated into stock prices, reducing its ability to generate abnormal returns. These findings support the semi-strong form of market efficiency and extend previous evidence from emerging markets where financial statement information has become increasingly accessible and transparent. Therefore, the study reinforces the argument that stock prices reflect a broader set of information beyond traditional accounting indicators, including market expectations, macroeconomic developments, and investor sentiment (Fama & French, 2018; Urquhart & Hudson, 2019; Kim et al., 2019; Sensoy et al., 2021; Yu & Zivot, 2024).

The study also contributes to Fundamental Analysis Theory by demonstrating that the usefulness of accounting fundamentals is neither universal nor constant across market conditions. Although financial statement information remains important for evaluating corporate performance, its ability to predict stock returns appears to be declining in increasingly efficient and information-rich markets. The significant role of PER compared with the insignificance of other accounting variables suggests that investors place greater emphasis on market-based valuation measures than on traditional accounting metrics. Furthermore, the comparison between pre-pandemic and post-pandemic periods reveals that the informational value of accounting indicators changes according to economic conditions. Consequently, the findings highlight the need to reconsider the conventional assumption that accounting fundamentals consistently determine stock return performance across different market environments (Bannigidadmath & Narayan, 2016; Novy-Marx, 2016; Hou et al., 2021; Mosoeu & Kodongo, 2020; Chipunza et al., 2020).

This research further contributes to the emerging market literature by demonstrating how crisis periods alter the informational relevance of firm-specific fundamentals. The COVID-19 pandemic created substantial uncertainty regarding economic growth, corporate profitability, and investor confidence, leading to significant changes in the way investors process information. The evidence suggests that accounting indicators become less informative during periods of elevated uncertainty as investors increasingly focus on macroeconomic conditions, policy responses, and market-wide risks. These findings provide support for the Adaptive Market Hypothesis, which argues that market efficiency and investor behavior evolve in response to changing economic environments. Therefore, the study extends existing knowledge by showing that stock return predictability is dynamic and dependent upon prevailing market conditions rather than being permanently determined by firm fundamentals alone (Lo, 2017; Noda, 2016; Bouri et al., 2021; Demir et al., 2022; Yang, 2025).

The findings offer important implications for investors operating in emerging capital markets. Since most accounting fundamentals demonstrate limited predictive ability, investors should avoid relying exclusively on financial statement information when constructing investment portfolios. Instead, investment decisions should integrate accounting indicators with broader sources of information, including macroeconomic trends, monetary policy developments, market sentiment, geopolitical risks, and industry-specific conditions. The significant role of PER suggests that valuation considerations remain relevant, but investors should carefully evaluate whether high market valuations are supported by realistic future earnings expectations. Consequently, a more comprehensive investment approach that combines fundamental analysis, market-based indicators, and behavioral considerations is likely to produce superior decision-making outcomes (Narayan et al., 2017; Demir et al., 2022; Zhang et al., 2023; Yu & Zivot, 2024; Bouri et al., 2021).

For corporate managers, the results emphasize the importance of improving information transparency and communication quality. The declining explanatory power of traditional accounting indicators suggests that investors increasingly demand more comprehensive information regarding corporate strategy, risk management, sustainability performance, and future growth opportunities. Firms should therefore strengthen investor relations activities and provide timely disclosures that reduce information asymmetry and enhance market confidence. In addition, managers should recognize that accounting performance alone may not be sufficient to attract investors in highly competitive capital markets. Effective communication regarding long-term value creation and corporate resilience may become equally important in shaping investor perceptions and firm valuation (Lee et al., 2022; Dang et al., 2023; Al-Hiyari et al., 2024; Hamdan et al., 2025; Sulistyorini et al., 2024).

The findings also carry important implications for regulators and policymakers responsible for maintaining market integrity and efficiency. Since investors increasingly rely on a broad range of information sources, regulators should strengthen disclosure standards and improve the quality, accessibility, and timeliness of corporate reporting. Enhanced transparency can reduce information asymmetry and support more efficient price discovery processes within the capital market. Furthermore, financial regulators should promote investor education programs that encourage rational investment behavior and reduce excessive reliance on speculative trading activities. Such initiatives are particularly important in emerging markets where retail investor participation continues to increase and behavioral biases may significantly influence market outcomes (OECD, 2023; World Bank, 2022; Lee et al., 2022; Yang, 2025; Demir et al., 2022).

5. CONCLUSION

This study investigates the effects of Total Asset Growth (TAG), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Dividend Yield (DY) on stock returns among LQ45 companies listed on the Indonesia Stock Exchange during 2017–2022. The findings reveal that only PER has a significant influence on stock returns, while TAG, DPR, and DY do not exhibit significant predictive power. The robustness analyses using Clustered Standard Errors and Fama-MacBeth estimation confirm the consistency of these results, indicating that traditional accounting fundamentals possess limited ability to explain stock return variation. Furthermore, the comparison between pre-COVID and post-COVID periods demonstrates that the pandemic altered the informational relevance of financial indicators, reflecting changes in investor behavior and increasing market uncertainty. These findings provide support for the semi-strong form of the Efficient Market Hypothesis and suggest that investors increasingly rely on broader sources of information beyond accounting fundamentals. Therefore, stock return predictability in emerging markets appears to be dynamic and influenced by economic conditions, market sentiment, and structural changes in the investment environment. Future research is encouraged to incorporate behavioral factors, macroeconomic variables, environmental, social, and governance (ESG) indicators, and advanced asset pricing models to better explain stock return behavior in emerging capital markets.

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