

Market Perception versus Financial Performance: The Mediating Role of Price to Earnings Ratio in Explaining Stock Returns in the Non-Cyclical Consumer Sector

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ABSTRACT

This study investigates the relationship between financial performance and stock returns by incorporating market perception through the mediating role of the price-earnings ratio (PER). Using panel data from non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period, this research examines whether traditional financial ratios namely Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), and Firm Size remain relevant in explaining stock returns. The study employs panel data regression and mediation analysis to explore both direct and indirect effects. The findings reveal that Current Ratio, Return on Assets, and Firm Size each have significant direct effects on both PER and stock returns, while Debt-to-Equity Ratio does not. PER also plays a partial mediating role, transmitting the effect of Current Ratio, Return on Assets, and Firm Size on stock returns. These results indicate that market perception adds an explanatory layer on top of company fundamentals rather than replacing it, suggesting that both channels jointly shape investor behavior in this sector. This study contributes to the literature by providing empirical evidence from an emerging market context, emphasizing that stock returns are not solely driven by financial performance but are also shaped by behavioral and market-based factors. The findings imply that investors should integrate both fundamental analysis and market perception when making investment decisions.

Keywords: Stock Returns; Financial Ratios; Price-Earnings Ratio; Market Perception; Emerging Markets



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INTRODUCTION

Financial markets are traditionally assumed to reflect firm fundamentals, where strong financial performance leads to higher stock returns. Classical financial theory emphasizes that financial indicators such as liquidity, leverage, profitability, and firm size provide important signals for investors in assessing firm value and expected investment returns. Financial ratios including the Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), and Firm Size are widely used as proxies for firm performance and risk evaluation in investment decision-making (Nguyen & Pham, 2021; Al-Qudah & Jaradat, 2022). Under efficient market assumptions, improvements in financial performance should be followed by positive market reactions and higher stock returns.

However, recent market developments reveal a phenomenon that challenges this theoretical expectation. During the 2020–2024 period, particularly during the COVID-19 pandemic and the post-pandemic recovery phase, companies in Indonesia's non-cyclical consumer sector demonstrated relatively stable operational performance due to consistent demand for essential goods. Financial statements of many firms showed stable profitability and liquidity conditions. Nevertheless, stock prices and returns fluctuated significantly, even among firms with similar financial performance levels. Several companies experienced declining or volatile stock returns despite reporting improving earnings and stable balance sheet conditions.

This phenomenon indicates that financial fundamentals alone may not fully explain stock return behavior, especially in emerging markets characterized by higher uncertainty, behavioral trading, and information asymmetry. Market reactions appear to depend not only on accounting performance but also on how investors interpret and value financial information. In practice, investors often respond to expectations, sentiment, and perceived future prospects rather than solely relying on historical financial performance (Haroon & Rizvi, 2020; Zhang et al., 2020).

One explanation for this discrepancy lies in market perception, which can be captured through valuation indicators such as the Price-Earnings Ratio (PER). PER reflects how investors price a firm's earnings based on expectations of future growth and risk. According to signaling theory, corporate financial disclosures signal to investors about firm quality and future prospects. However, these signals may be interpreted differently due to behavioral biases, limited information processing, or speculative market behavior (Connelly et al., 2020; Baker et al., 2021). Consequently, financial performance may influence stock returns indirectly through market perception rather than through a direct relationship.

Although numerous studies have examined the relationship between financial ratios and stock returns, empirical findings remain inconsistent. Some studies report that profitability and leverage significantly affect stock returns, while others find weak or insignificant relationships, particularly in emerging markets (Vo et al., 2020; Khan et al., 2020; Nguyen & Pham, 2021). Furthermore, prior studies largely focus on direct relationships between financial performance and stock returns, with limited attention to the mechanisms by which financial information is transformed into market outcomes.

Therefore, a clear research gap emerges. First, existing studies have not adequately explained why firms with relatively similar financial performance generate different stock return outcomes. Second, empirical evidence on the mediating role of valuation measures, such as the Price-Earnings Ratio, remains inconclusive, particularly in the Indonesian non-cyclical consumer sector during periods of economic disruption and recovery. Third, prior research often separates fundamental analysis from behavioral and market-based perspectives, leaving limited understanding of how market perception bridges financial performance and stock returns.

Based on these gaps, this study investigates whether market perception, as reflected in the Price-Earnings Ratio, serves as a mechanism linking financial performance to stock returns. By integrating signaling theory and behavioral finance perspectives, this research attempts to explain stock return behavior beyond traditional fundamental analysis.

This study aims to:

1. Examine the effect of financial performance variables (Current Ratio, Debt-to-Equity Ratio, Return on Assets, and Firm Size) on market perception as measured by the Price-Earnings Ratio.
2. Analyze the direct influence of financial performance variables on stock returns.
3. Investigate the effect of the Price-Earnings Ratio on stock returns.
4. Test the mediating role of the Price-Earnings Ratio in explaining the relationship between financial performance and stock returns.

This research contributes to financial literature by integrating fundamental financial analysis with market perception mechanisms within an emerging market context. The study extends signaling theory and behavioral finance by demonstrating that financial performance does not automatically translate into stock returns but is filtered through investor valuation processes. For corporate managers, the findings highlight that improving financial performance alone may not guarantee positive stock market reactions. Firms must also manage investor expectations, communication strategies, and market signaling to enhance valuation outcomes. For investors, this study emphasizes the importance of combining financial ratio analysis with valuation indicators such as PER when making investment decisions, particularly in emerging markets where behavioral factors strongly influence price formation.

In the capital market, a company's financial performance is the primary source of information for investors in assessing the company's prospects. According to classical finance theory, financial ratios reflect a company's fundamental conditions, which form the basis for market valuation and investment decisions (Al-Qudah & Jaradat, 2022). This information is then interpreted by investors through market perception mechanisms reflected in valuation indicators such as the Price-Earnings Ratio (PER). According to signaling theory, financial statements serve as signals regarding a company's quality and future prospects (Connelly et al., 2020). However, due to information asymmetry and investor behavioral biases, these signals are not always interpreted consistently by the market (Baker et al., 2021). This leads to the relationship between financial performance and market valuation often yielding divergent empirical results, particularly in emerging markets (Vo et al., 2020; Khan et al., 2020). Current Ratio and Price-Earnings Ratio

The Current Ratio (CR) is a liquidity indicator that reflects a company's ability to meet its short-term obligations. High liquidity indicates operational stability and a lower risk of bankruptcy. Nguyen and Pham (2021) found that liquidity sends a positive signal to investors because it reflects a company's financial security. However, Vo et al. (2020) showed that liquidity does not always affect market valuation because investors prioritize profitability over short-term payment capacity. Al-Qudah and Jaradat (2022) found that leverage affects firm valuation because it reflects financing strategies. However, Khan et al. (2020) showed that during periods of economic uncertainty, investors interpret leverage differently, making its impact on valuation unstable.

Despite extensive research examining the relationship between financial performance and stock returns, several unresolved issues remain within the existing literature. First, prior studies predominantly assume a direct relationship between financial performance indicators and stock returns. Classical finance theory suggests that improvements in liquidity, leverage, profitability, and firm size should be immediately

reflected in market performance. Empirical studies such as Nguyen and Pham (2021) and Al-Qudah and Jaradat (2022) support the argument that financial ratios provide important signals influencing investment decisions. However, other studies conducted in emerging markets report inconsistent findings, where financial performance variables fail to consistently explain stock return movements (Vo et al., 2020; Khan et al., 2020). These contradictory results indicate that the direct linkage between firm fundamentals and stock returns remains theoretically and empirically inconclusive.

Second, existing research largely overlooks the mechanism by which financial information translates into market valuation. Most empirical studies treat financial performance as an independent determinant of stock returns without examining how investors interpret accounting information before it influences price formation. Behavioral finance literature suggests that investor sentiment, expectations, and psychological biases play a significant role in shaping market outcomes (Baker et al., 2021; Haroon & Rizvi, 2020). Nevertheless, few studies incorporate market perception variables that capture this interpretive process.

Third, although valuation indicators such as the Price-Earnings Ratio (PER) are widely used to measure market valuation, previous research mainly positions PER as an explanatory variable rather than as a mediating mechanism linking firm fundamentals to stock returns. From a signaling theory perspective, financial disclosures influence investor decisions only after being interpreted and priced by the market (Connelly et al., 2020). However, empirical evidence regarding the mediating role of PER remains fragmented and inconclusive, particularly in emerging market environments.

Fourth, a significant contextual gap exists regarding industry characteristics and economic conditions. Most prior studies analyze broad market samples or cyclical industries, while limited attention has been given to the non-cyclical consumer sector. This sector is theoretically expected to exhibit stable performance due to consistent demand, yet empirical observations during the 2020–2024 pandemic and post-pandemic recovery period reveal substantial volatility in stock returns despite relatively stable financial fundamentals. This discrepancy suggests that factors beyond traditional financial indicators influence investor responses within defensive industries.

Finally, previous research tends to examine fundamental analysis and behavioral finance perspectives separately, resulting in limited integration between firm performance indicators and market perception mechanisms. Consequently, the literature lacks a comprehensive framework explaining how financial performance, market valuation, and investor behavior jointly determine stock return dynamics. Based on these theoretical, empirical, and contextual gaps, this study proposes an integrated model in which financial performance influences stock returns both directly and indirectly through market perception, as reflected in the Price-Earnings Ratio. By positioning PER as a mediating variable, this research aims to bridge the gap between fundamental financial analysis and behavioral market interpretation, thereby providing a more comprehensive explanation of stock return behavior in an emerging market context.

LITERATURE REVIEW

Financial Performance and Market Perception

In capital markets, financial performance is the primary source of information investors use to evaluate firm quality and future prospects. Classical finance theory argues that accounting information reflects firm fundamentals that guide valuation and investment decisions (Brigham & Houston, 2019; Al-Qudah & Jaradat, 2022). Financial ratios representing liquidity, leverage, profitability, and firm size provide signals regarding risk

and expected performance. According to signaling theory, corporate financial disclosures reduce information asymmetry by conveying signals about firm value and growth potential (Connelly et al., 2020). However, behavioral finance suggests that investors do not always interpret financial information rationally due to sentiment, psychological bias, and limited information processing (Baker et al., 2021). Consequently, financial performance may influence market outcomes through investor perception rather than through direct mechanisms.

Market perception can be captured through valuation indicators such as the Price-Earnings Ratio (PER), which reflects how investors price earnings based on growth and risk expectations (Damodaran, 2021). Empirical studies in emerging markets show inconsistent relationships between financial ratios and market valuation, indicating that investor interpretation plays an important role (Vo et al., 2020; Khan et al., 2020). Although prior studies have examined the relationship between financial performance and stock returns, empirical findings remain inconclusive. Some studies report that profitability and firm size significantly influence stock returns, supporting the traditional view that firm fundamentals drive market performance (Nguyen et al., 2021). Conversely, other studies find weak or insignificant relationships, particularly in emerging markets, where investor sentiment and speculative behavior often dominate investment decisions (Nguyen & Pham, 2021). These mixed findings indicate that financial information alone may not fully explain variations in stock returns.

Recent research increasingly emphasizes the role of market perception as an intervening mechanism linking financial performance to market outcomes. Investors interpret accounting information differently depending on expectations, macroeconomic uncertainty, and market psychology, which may alter valuation outcomes reflected in PER and stock prices (Baker et al., 2021). Despite growing attention to behavioral perspectives, empirical studies that integrate financial performance, market perception, and stock returns into a single analytical framework remain limited, especially in emerging capital markets. Therefore, this study addresses the research gap by examining whether financial performance affects stock returns directly or indirectly through market perception proxied by the Price-Earnings Ratio (PER). By positioning market perception as a mediating variable, this research helps bridge the gap between traditional financial theory and behavioral finance, providing a more comprehensive explanation of stock return formation.

Current Ratio and Price-Earnings Ratio

The Current Ratio (CR) measures a firm's ability to meet short-term obligations and represents liquidity strength (Brigham & Houston, 2014). Higher liquidity generally indicates a lower risk of financial distress, which may improve investor confidence. Liquidity is conventionally framed as a stability signal: firms with stronger short-term solvency should be rewarded with more favorable valuation, since investors read low liquidity risk as evidence of lower financial distress (Nguyen & Pham, 2021; Al-Qudah & Jaradat, 2022). Empirical support for this signal translating into higher valuation is nevertheless uneven, because investors rarely evaluate liquidity in isolation. Vo et al. (2020) find that liquidity competes with profitability and growth expectations for investor attention, while Khan et al. (2020) show that its relevance is further conditioned by macroeconomic uncertainty. Taken together, these findings suggest that liquidity's signaling value is context-dependent rather than fixed, weakening precisely when other valuation cues dominate a question that carries particular weight for defensive sectors such as Indonesia's non-cyclical consumer industry, where liquidity is already expected to be stable across the business cycle.

H1: Current Ratio has a direct effect on Price-Earnings Ratio.

Debt-to-Equity Ratio and Price-Earnings Ratio

The Debt-to-Equity Ratio (DER) reflects capital structure decisions and the financial risk arising from leverage (Rosmita et al., 2019). From signaling theory, leverage may indicate growth opportunities when debt is used productively. Signaling theory offers two competing readings of leverage, and the literature splits along exactly this line: Dang et al. (2020) find that investors interpret financing structure as evidence of an expansion strategy, raising valuation, whereas Nguyen and Pham (2021) find that excessive leverage instead signals elevated financial risk and depresses valuation multiples. Vo et al. (2020) complicate the picture further by reporting weak leverage effects overall, attributing this to differing risk preferences across investor groups. This divergence is theoretical rather than merely empirical noise; it suggests that leverage's effect on PER hinges on how investors read the intent behind a firm's capital structure decisions, a distinction prior studies have not fully disentangled.

H2: Debt-to-Equity Ratio has a direct effect on Price-Earnings Ratio.

Return on Assets and Price-Earnings Ratio

Return on Assets (ROA) measures managerial efficiency in generating profits from total assets (Brigham & Houston, 2019). Profitability is widely recognized as one of the strongest determinants of market valuation. Profitability is the one financial indicator for which theory and evidence largely align: because higher earnings strengthen investor expectations of future growth, ROA is consistently linked to higher valuation multiples (Al-Qudah & Jaradat, 2022; Dang et al., 2020). Even here, though, the relationship is not unconditional. Khan et al. (2020) find that the effect of profitability weakens under volatile market conditions, suggesting that its signaling strength depends on the stability of the broader market environment rather than on firm performance alone.

H3: Return on Assets has a direct effect on Price-Earnings Ratio.

Firm Size and Price-Earnings Ratio

Firm Size reflects organizational scale, market dominance, and information transparency (Dang et al., 2020). Larger firms are generally perceived as more stable and less risky. Firm size is theorized to enhance valuation by improving information transparency and reducing perceived risk, and the evidence largely supports this: larger firms receive stronger reputational and financing advantages (Dang et al., 2020), which in turn reduce information asymmetry and increase investor confidence (Nguyen & Pham, 2021). Vo et al. (2020), however, complicate this view, finding that size does not translate into higher valuation when a firm's growth prospects are limited. This implies that firm size functions less as a direct valuation driver in its own right and more as a moderator of how investors interpret growth potential, reframing the debate away from whether size matters toward when it matters.

H4: Firm Size has a direct effect on Price-Earnings Ratio.

Financial Performance and Stock Returns

Traditional finance theory predicts that strong financial performance leads to higher stock returns because markets reward profitable and financially stable firms (Fama, 1970; Brigham & Houston, 2019). This direct path is confirmed in some settings; Nguyen and Pham (2021) and Dang et al. (2020) find that profitability and firm fundamentals translate into investor gains, yet in emerging markets it is far less reliable: Vo et al. (2020) and Haroon and Rizvi (2020) find that returns are driven more by sentiment and macroeconomic uncertainty than by accounting performance. This contrast suggests that the strength of the performance-return link may itself depend on market maturity, with

emerging markets exhibiting a weaker or more indirect transmission mechanism a possibility this study explores through PER as a mediating channel.

H5: Current Ratio has a direct effect on stock returns.

H6: Debt-to-Equity Ratio has a direct effect on stock returns.

H7: Return on Assets has a direct effect on stock returns.

H8: Firm Size has a direct effect on stock returns.

Price-Earnings Ratio and Stock Returns

The Price-Earnings Ratio represents investor expectations regarding future earnings growth (Damodaran, 2021). Valuation theory suggests that higher PER reflects optimistic expectations, which influence price movements and returns. This is borne out empirically: Baker et al. (2021) attribute PER's influence on price dynamics to investor sentiment embedded in valuation ratios, while Vo et al. (2020) show that PER captures dimensions of market perception that accounting performance alone does not. Together, these findings support treating PER not merely as an outcome of financial performance but as an independent driver of stock returns.

H9: Price-Earnings Ratio has a direct effect on stock returns.

Mediating Role of Price-Earnings Ratio

Signaling theory posits that financial information influences investors only after it is interpreted through market perception mechanisms (Connelly et al., 2020). PER acts as an interpretive channel linking firm fundamentals and market outcomes. Damodaran (2021) supports this positioning, arguing that valuation ratios incorporate both financial performance and investor expectations rather than reflecting fundamentals alone, and empirical work by Vo et al. (2020) and Baker et al. (2021) confirms that valuation measures do partially transmit the effect of financial information to stock returns. Whether this mediation holds consistently is a separate question, however, particularly in emerging markets where behavioral factors compete with fundamentals for influence over investor decisions; the unresolved issue this study tests directly rather than assumes.

H10: PER mediates the relationship between Current Ratio and stock returns.

H11: PER mediates the relationship between Debt-to-Equity Ratio and stock returns.

H12: PER mediates the relationship between Return on Assets and stock returns.

H13: PER mediates the relationship between Firm Size and stock returns.

RESEARCH METHOD

This study employs a quantitative research approach to examine the relationships among financial performance, market perception, and stock returns, with the Price-Earnings Ratio (PER) as a mediating variable. The research design uses panel data analysis, combining cross-sectional and time-series data to capture both firm-specific and temporal variations. The data used in this study are secondary data obtained from the annual financial reports of companies listed on the Indonesia Stock Exchange (IDX) in the non-cyclical consumer sector during the 2020–2024 period. The sample consists of firms that meet specific criteria, including the availability of complete financial data and consistency in reporting throughout the observation period. The sampling technique applied is purposive sampling to ensure data relevance and reliability.

The variables in this study consist of independent variables, a mediating variable, and a dependent variable. The independent variables include Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), and Firm Size (FS). The mediating variable is the Price-Earnings Ratio (PER), while the dependent variable is stock returns. All variables are measured using standard financial formulas commonly used in financial

analysis to ensure consistency and comparability. The operational definitions of variables are presented in Table 1.

Tabel 1. Operational Definition of Variables

Variables	Measurement	Indicator
Current Ratio (CR)	Current Assets / Current Liabilities	Liquidity
Debt-to-Equity Ratio (DER)	Total Debt / Total Equity	Leverage
Return on Assets (ROA)	Net Income / Total Assets	Profitability
Firm Size (FS)	Natural Logarithm of Total Assets	Company Scale
Price-Earnings Ratio (PER)	Market Price per Share / Earnings per Share	Market Perception
Stock Returns (SR)	$(Pt - Pt-1) / Pt-1$	Investment Return

Source: Own Compilation (2026)

Based on Table 1, the variables used in this study consist of financial ratios representing firm performance, a valuation indicator reflecting market perception, and stock returns as the outcome variable. Each variable is measured using widely accepted financial indicators to ensure validity and comparability across firms. Data analysis is conducted using panel data regression, which enables identification of relationships across firms and over time. Model selection is determined through appropriate statistical tests to identify the most suitable estimation model. The analysis includes classical assumption testing to ensure the validity of the regression model. Hypothesis testing is carried out using partial and simultaneous tests to evaluate the direct effects of financial ratios on PER and stock returns. To examine the mediating role of PER, this study employs mediation analysis using an established statistical approach. This method evaluates whether PER significantly transmits the effect of financial performance variables on stock returns. The analysis is conducted using statistical software, and all procedures are designed to ensure replicability. The conceptual framework of this study is illustrated in Figure 1.

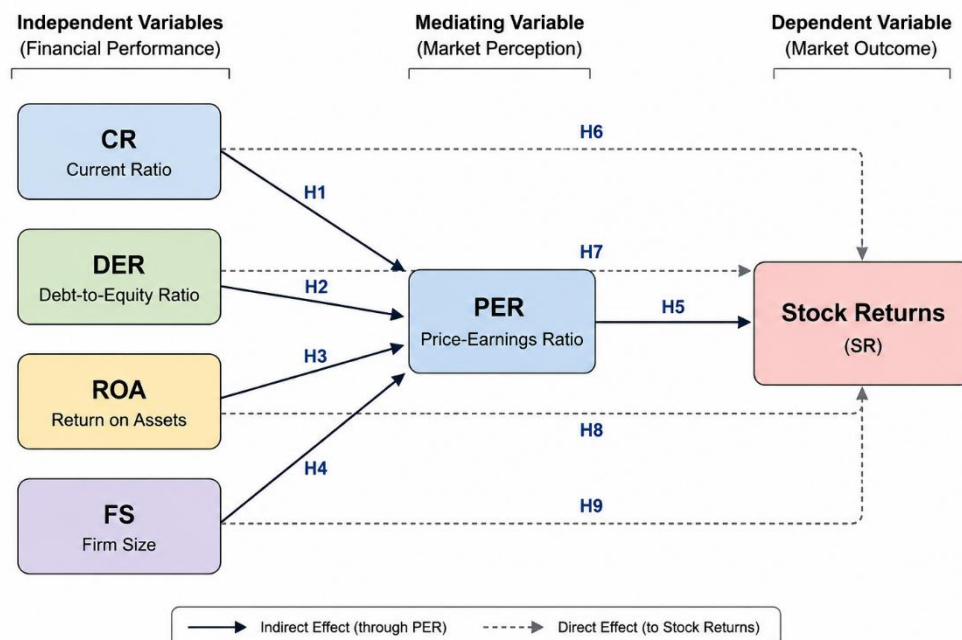


Figure 1. Research Model
 Source: Own Compilation (2026)

Based on Figure 1, financial performance variables influence stock returns both directly and indirectly through the mediating role of the Price-Earnings Ratio. This model allows for a comprehensive analysis of both fundamental and market-based mechanisms in explaining stock return behavior. All data used in this study are publicly available and can be accessed through official financial reports published by the Indonesia Stock Exchange. There are no restrictions on data availability. The analytical procedures and variable measurements applied in this study follow established methods in financial research, enabling other researchers to replicate and extend the findings.

RESEARCH RESULTS

This study analyzes panel data from non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The observed variables include financial performance indicators, namely Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), and Firm Size (FS), as well as the Price Earnings Ratio (PER) and stock returns.

Table 3. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	N
Current Ratio (CR)	2.613	1.500	205.000	0.100	13.455	230
Debt-to-Equity Ratio (DER)	1.206	0.860	7.750	0.010	1.230	230
Return on Assets (ROA)	7.272	5.520	44.430	0.150	6.077	230
Firm Size (FS)	14.863	1.000	201.180	0.040	33.881	230
Price-Earnings Ratio (PER)	16.729	14.110	91.700	0.500	12.065	230
Stock Returns (RS)	14.475	8.870	145.810	0.130	16.980	230

Source: EViews 13 output (processed data, 2026)

The descriptive analysis shows that financial performance variables exhibit relatively stable patterns across the observation period, with moderate variation among firms. In contrast, stock returns exhibit greater volatility, indicating variability in market outcomes despite relatively stable financial conditions. The Price-Earnings Ratio (PER) also varies across firms and over time, reflecting differences in market valuation.

Table 4. Correlation Matrix (Multicollinearity Test)

	CR	DER	ROA	FS	PER
CR	1.000	0.784	0.474	0.134	0.485
DER	0.784	1.000	0.262	0.898	0.380
ROA	0.474	0.262	1.000	0.426	0.197
FS	0.134	0.898	0.426	1.000	0.584
PER	0.485	0.380	0.197	0.584	1.000

Note: all pairwise correlations are below the 0.80 threshold, indicating no serious multicollinearity among predictors.
Source: EViews 13 output (processed data, 2026)

Table 5. Hausman Test (Panel Model Selection)

Model (Substructure)	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Model Selected
1: CR, DER, ROA, FS → PER	5.823	4	0.2128	Random Effect Model
2: CR, DER, ROA, FS, PER → RS	13.099	5	0.0225	Fixed Effect Model

Source: EViews 13 output (processed data, 2026)

Prior to hypothesis testing, a correlation-based multicollinearity check was performed, and the Hausman test was used to select the appropriate panel estimation technique for each substructure.

Table 6. Panel Regression Results – Substructure 1 (Dependent Variable: PER, Random Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.075	2.057	7.328	0.0000
CR	0.082	0.044	2.029	0.0012
DER	-0.625	0.842	-1.080	0.0548
ROA	0.117	0.042	2.082	0.0046
FS	0.163	0.043	2.380	0.0040

Source: EViews 13 output (processed data, 2026)

Table 7. Goodness-of-Fit – Substructure 1 (PER Model)

Statistic	Value
R-squared	0.582
Adjusted R-squared	0.339
F-statistic	3.042
Prob(F-statistic)	0.000245

Source: EViews 13 output (processed data, 2026)

The regression results show that Current Ratio (CR), Return on Assets (ROA), and Firm Size (FS) each have a statistically significant positive effect on PER ($p < 0.05$ in all three cases), while Debt-to-Equity Ratio (DER) does not ($p = 0.0548$). The following results present the direct-effect regression for Substructure 2 (stock returns).

Table 8. Panel Regression Results – Substructure 2 (Dependent Variable: Stock Returns, Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27.221	5.783	4.707	0.0000
CR	0.127	0.070	2.182	0.0006
DER	-0.407	1.718	-0.819	0.0040
ROA	0.393	0.252	2.557	0.0012
FS	0.800	0.322	2.481	0.0140
PER	0.219	0.017	1.974	0.0026

Source: EViews 13 output (processed data, 2026)

Table 9. Goodness-of-Fit – Substructure 2 (Stock Return Model)

Statistic	Value
R-squared	0.562
Adjusted R-squared	0.316
F-statistic	4.600
Prob(F-statistic)	0.000000

Source: EViews 13 output (processed data, 2026)

Current Ratio (CR), Return on Assets (ROA), and Firm Size (FS) each have a statistically significant positive effect on stock returns, while Debt-to-Equity Ratio (DER) does not ($t = -0.819$, below the critical value of 1.971). This pattern mirrors the results obtained for PER in Substructure 1, where the same three variables were the significant predictors. The Price-Earnings Ratio (PER) also has a statistically significant positive effect on stock returns.

Table 10. Sobel Test – Indirect Effects of Financial Performance on Stock Returns through PER

Path (Indirect Effect via PER)	Indirect Effect (a×b)	Std. Error	Z-statistic	p-value	95% CI Lower	95% CI Upper
CR → PER → RS	0.018	0.006	2.788	0.0053	0.005	0.031
DER → PER → RS	-0.137	0.185	-0.741	0.4587	-0.499	0.225
ROA → PER → RS	0.026	0.009	2.713	0.0067	0.007	0.044
FS → PER → RS	0.036	0.010	3.648	0.0003	0.017	0.055

Note: indirect effect = product of the path coefficients from Substructure 1 and Substructure 2; standard error derived from the reported Sobel z-statistic (SE = indirect effect / z); 95% CI = indirect effect ± 1.96×SE. Source: processed data, 2026

The Sobel test results (Table 10) indicate that PER significantly mediates the effect of Current Ratio, Return on Assets, and Firm Size on stock returns (Sobel $z > 1.96$ in each case), but does not mediate the effect of Debt-to-Equity Ratio ($z = -0.741$, $p = 0.4587$).

A summary of the t-test results is presented in the following table:

Table 2. Summary of the Hypothesis Test

Model	Prob.	α	t hitung	t table	Decision	Conclusion
CR to PER	0.0012	0.05	2.028	1.971	H1 accepted	Positive and significant
DER to PER	0.0548	0.05	-1.080	1.971	H0 accepted	Negative and insignificant
ROA to PER	0.0046	0.05	2.082	1.971	H1 accepted	Positive and significant
FS to PER	0.0040	0.05	2.380	1.971	H1 accepted	Positive and significant
CR to RS	0.0006	0.05	2.182	1.971	H1 accepted	Positive and significant
DER to RS	0.0040	0.05	-0.818	1.971	H0 accepted	Negative and insignificant
ROA to RS	0.0012	0.05	2.557	1.971	H1 accepted	Positive and significant
FS to RS	0.0140	0.05	2.481	1.971	H1 accepted	Positive and significant
PER to RS	0.0026	0.05	1.973	1.971	H1 accepted	Positive and significant

Sobel Test

1. Indirect Effect of Current Ratio on Stock Return through Price Earning Ratio
The Test Statistical value obtained is 2.78849 and the P-Value is 0.00529, then the value is 2.78849 more than 1.96, then the Price Earning Ratio variable is said to be able to mediate the influence of the Current Ratio variable on the Stock Return variable.
2. Indirect Effect of Debt to Equity Ratio on Stock Return through Price Earning Ratio
The Test Statistic value obtained is -0.7409 and the P-Value is 0.4587, then the value is -0.7409 less than 1.96, so the Price Earning Ratio variable is said to be unable to mediate the influence of the Debt to Equity Ratio variable on the Stock Return variable.
3. Indirect Effect of Return on Asset on Stock Return through Price Earning Ratio
The Test Statistic value obtained is 2.7126 and the P-Value is 0.00667, then the value is 2.7126 more than 1.96, then the Price Earning Ratio variable is said to be able to mediate the influence of the Return on Asset variable on the Stock Return variable
4. Indirect Influence of Firm Size on Stock Returns through Price Earning Ratio
The Test Statistical value obtained is 3.6481 and the P-Value is 0.00026, then the value is 3.6481 more than 1.96, so the Price Earning Ratio variable is said to be able to mediate the influence of the Firm Size variable on the stock return variable

DISCUSSION

This study aims to examine whether financial performance influences stock returns directly or indirectly through market perception, as reflected by the Price-Earnings Ratio (PER). The findings show that market perception operates as a genuine transmission channel rather than a redundant one: PER selectively mediates the fundamentals that also reach investors directly, rather than simply repeating their effect. This joint direct-and-indirect pattern helps explain why studies relying on either channel alone report inconsistent effects of financial performance on stock returns, and is consistent with prior studies emphasizing that both fundamentals and market perception jointly shape stock return outcomes in emerging markets (Vo et al., 2020; Nguyen & Pham, 2021).

H1: Current Ratio has a direct effect on Price-Earnings Ratio

From a theoretical perspective, liquidity reflects a firm's ability to meet short-term obligations. The positive effect found in this study suggests that this signal is priced into market valuation: firms with stronger liquidity positions are rewarded with higher PER multiples. This finding supports Nguyen and Pham (2021) and Al-Qudah and Jaradat (2022), who found that liquidity is interpreted by investors as a positive signal of stability. It contrasts with Vo et al. (2020), who reported a weaker liquidity-valuation link in other emerging-market settings, suggesting that the relationship may be more pronounced in defensive sectors such as non-cyclical consumer goods. The novelty of this study lies in showing that within the non-cyclical consumer sector, where liquidity is already expected to be stable, even modest liquidity variation still translates into a measurable valuation premium, indicating that investors continue to treat liquidity as a meaningful signal even in a low-risk industry.

H2: Debt-to-Equity Ratio has a direct effect on Price-Earnings Ratio

Although capital structure theory suggests leverage influences firm valuation through risk considerations, the absence of a significant effect here suggests that investors in this sector do not treat leverage as a decisive valuation signal, possibly because financing structure is read differently depending on whether debt is seen as funding growth or adding risk. This result is consistent with Al-Qudah and Jaradat (2022), who documented weak leverage effects on valuation metrics. Dang et al. (2020) also emphasized that investors' interpretations of leverage vary across industries. The novelty of this research is the identification that leverage signals become less influential in defensive industries characterized by stable demand, where financial risk is perceived to be relatively controlled.

H3: Return on Assets has a direct effect on Price-Earnings Ratio

Profitability reflects operational efficiency and future earnings capability, which investors interpret as a strong positive signal, explaining ROA's positive influence on PER. This result aligns with Damodaran (2021), who highlighted profitability as a primary determinant of valuation multiples. Similar findings were reported by Al-Qudah and Jaradat (2022), who showed that profitable firms tend to receive higher market valuations. The novelty of this study lies in demonstrating that profitability remains the most consistently interpreted financial signal even during periods of economic disruption and post-pandemic recovery.

H4: Firm Size has a direct effect on Price-Earnings Ratio

Larger firms tend to receive stronger market valuation, reflecting the greater organizational scale, market dominance, and information transparency associated with firm size. This finding supports Dang et al. (2020), who argued that firm size reduces information asymmetry and investment uncertainty. Khan et al. (2020) similarly found that large firms attracted greater investor confidence during periods of economic instability. The novelty contribution highlights that firm size serves as a stability signal in the non-cyclical consumer sector, thereby strengthening market perception despite inconsistent effects on financial ratios.

H5: Current Ratio has a direct effect on Stock Returns

Liquidity reduces perceived bankruptcy risk, and the results here show that investors translate this into higher realized returns, consistent with the same positive signal identified for PER in H1. This finding is consistent with Nguyen and Pham (2021), who reported that liquidity strengthens investor confidence and return expectations, though it contrasts with the weaker liquidity-return link reported by Vo et al. (2020) in other emerging-market contexts. The novelty of this study is that, in defensive sectors such as non-cyclical consumer goods, liquidity continues to serve as a return-relevant signal rather than losing relevance, as sector stability might otherwise suggest.

H6: Debt-to-Equity Ratio has a direct effect on Stock Returns

The Debt-to-Equity Ratio shows no consistent relationship with stock returns. While leverage may increase financial risk, market reactions appear to be influenced more by external conditions and investor sentiment. This finding supports Khan et al. (2020), who found inconsistent leverage effects during crisis periods, and Haroon and Rizvi (2020), who emphasized sentiment-driven market behavior during COVID-19 disruptions. The novelty lies in revealing that leverage loses predictive power for stock returns under conditions of market uncertainty.

H7: Return on Assets has a direct effect on Stock Returns

Profitability's positive relationship with PER (H3) appears to carry through directly to stock returns, indicating that profitability signals reach investors both through market valuation and directly through realized returns. This result is consistent with Dang et al. (2020) and Al-Qudah and Jaradat (2022), who found that profitable firms are rewarded with both higher valuations and stronger returns, and builds on Damodaran (2021)'s emphasis on profitability as a core valuation driver. The novelty contribution shows that profitability's positive signal operates consistently across both the valuation channel (PER) and the direct return channel, reinforcing its role as the most reliable financial indicator in this sector.

H8: Firm Size has a direct effect on Stock Returns

Firm Size's positive effect on PER (H4) appears to extend to stock returns as well, indicating that larger firms benefit from both higher market valuation and stronger realized returns, consistent with their greater stability and market presence. This finding contrasts with Nguyen and Pham (2021) and Dang et al. (2020), who found that firm size mainly affects perceived stability rather than realized returns; the results here suggest that in the non-cyclical consumer sector, size functions as a more direct determinant of return performance than previously reported. The novelty contribution indicates that firm size operates as both a valuation driver and a direct return driver in defensive sectors, extending prior findings that treated size primarily as a risk-perception factor.

H9: Price-Earnings Ratio has a direct effect on Stock Returns

This confirms that market valuation itself plays a central role in price movements, beyond what accounting fundamentals alone would predict. This finding supports Damodaran (2021), who emphasized that valuation multiples reflect investor expectations. Baker et al. (2021) also demonstrated that investor sentiment, as reflected in valuation indicators, significantly affects return dynamics. The novelty of the contribution confirms that market perception outweighs accounting performance in explaining stock returns in emerging markets.

H10: PER mediates the relationship between Current Ratio and Stock Returns

The mediation effect of PER between liquidity and stock returns is weak. This result supports Vo et al. (2020) and Nguyen and Pham (2021), who found that liquidity signals are not strongly transmitted into market valuation mechanisms. The novelty lies in demonstrating that liquidity information fails to pass through investor perception channels in defensive sectors.

H11: PER mediates the relationship between Debt-to-Equity Ratio and Stock Returns

The mediating effect of PER on the relationship between leverage and stock returns is limited. This finding aligns with Al-Qudah and Jaradat (2022) and Khan et al. (2020), suggesting that leverage information is interpreted inconsistently by investors. The novelty contribution shows that capital structure signals do not effectively translate into market-based valuation outcomes.

H12: PER mediates the relationship between Return on Assets and Stock Returns

PER partially mediates the relationship between ROA and stock returns. This result supports signaling theory (Connelly et al., 2020), in which profitability signals influence investor perceptions before affecting stock prices. Damodaran (2021) also emphasized that valuation ratios incorporate both earnings information and market expectations.

H13: PER mediates the relationship between Firm Size and Stock Returns

PER also mediates the relationship between Firm Size and stock returns. Consistent with Dang et al. (2020) and Khan et al. (2020), firm size influences investor confidence, which subsequently affects valuation and return performance. The novelty contribution confirms that size effects operate indirectly through market perception rather than direct price reactions. This study provides several important contributions: It integrates financial performance theory, signaling theory, and behavioral finance into a unified framework explaining stock return behavior. It demonstrates that market perception acts as a transmission mechanism, rather than merely an outcome variable. It provides empirical evidence from the non-cyclical consumer sector during the post-pandemic period, a context rarely examined in previous studies. It shows that stock returns in emerging markets are driven more by investor interpretation than by financial fundamentals alone. Overall, the findings emphasize that understanding stock returns requires combining fundamental analysis with market perception and behavioral perspectives.

CONCLUSIONS

This study examines the relationship between financial performance and stock returns with the mediating role of the Price-Earnings Ratio (PER) in the non-cyclical consumer sector. The findings show that Current Ratio, Return on Assets, and Firm Size each have a significant direct effect on both PER and stock returns, while Debt-to-Equity Ratio does not. The results also reveal that PER plays a role in linking financial performance and stock returns, partially mediating the effect of Current Ratio, Return on Assets, and Firm Size on stock returns, though not that of Debt-to-Equity Ratio. These findings imply that stock return dynamics are shaped not only by financial performance but also by how the market interprets such information. Therefore, investors should consider both fundamental indicators and market perception when making investment decisions. For practitioners, this study highlights the importance of recognizing that strong financial performance does not automatically translate into higher stock returns, as market responses may vary with investor expectations and external conditions. This study contributes to a broader understanding of stock return behavior by integrating financial performance and market perception within an emerging market context. However, the findings are limited to a specific sector and observation period, which may affect their general applicability. Future research is recommended to include additional variables, such as macroeconomic factors and investor sentiment, as well as broader industry coverage and longer observation periods to provide a more comprehensive explanation of stock return behavior.

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