

Impact of EPS, Price Earning Ratio and Exchange Rate on Stock Prices with Inflation as Mediator

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ABSTRACT

Utilizing a purposive sample of 18 LQ45 firms from 2019 to 2024, this research evaluates how EPS, PER, and exchange rates drive stock prices, with inflation tested as a mediator. Data was analyzed using EViews 12 panel regression alongside Sobel-tested path analysis. The empirical results reveal that EPS and PER exert a significant positive effect on stock prices, whereas exchange rates exhibit a significant inverse relationship. Interestingly, inflation shows no direct impact and fails to mediate the connections between the independent variables and share values. These findings confirm that LQ45 stock pricing depends primarily on corporate fundamental health and foreign exchange dynamics rather than inflationary pressures during the studied window. The conclusions offer actionable insights for investors, regulators, and financial policymakers.

Keywords: EPS; Exchange Rates; Inflation; PER; Stock Price

Pengaruh EPS, PER, dan Kurs terhadap Harga Saham dengan Inflasi sebagai Variabel Intervening

ABSTRAK

Dengan menggunakan sampel purposif yang terdiri dari 18 perusahaan LQ45 pada periode 2019 hingga 2024, penelitian ini mengevaluasi bagaimana EPS, PER, dan nilai tukar memengaruhi harga saham, dengan inflasi diuji sebagai variabel mediator. Data dianalisis menggunakan regresi panel EViews 12 bersama dengan analisis jalur yang diuji dengan uji Sobel. Hasil empiris menunjukkan bahwa EPS dan PER memberikan pengaruh positif yang signifikan terhadap harga saham, sedangkan nilai tukar menunjukkan hubungan terbalik yang signifikan. Menariknya, inflasi tidak menunjukkan dampak langsung dan gagal berperan sebagai mediator dalam hubungan antara variabel independen dan nilai saham. Temuan ini menegaskan bahwa penetapan harga saham LQ45 terutama bergantung pada kesehatan fundamental perusahaan dan dinamika nilai tukar, bukan pada tekanan inflasi selama periode yang diteliti. Kesimpulan ini memberikan wawasan yang dapat ditindaklanjuti bagi investor, regulator, dan pembuat kebijakan keuangan.

Kata Kunci EPS; Harga Saham; Inflasi; Kurs; PER

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INTRODUCTION

The development of the capital market now serves as a key indicator of national economic growth and optimism regarding Indonesia's economic outlook. The capital market is a platform that connects investors—or parties with surplus funds—with those in need of financing, thereby facilitating various transactions involving long-term investment products such as stocks, bonds, and mutual funds (Putri et al., 2025). Among these instruments, stocks are a popular form of long-term investment and are actively traded in the capital market. Fluctuation in share prices signals corporate financial standing and heavily impacts how market participants allocate capital (Maulida & Mahardika, 2021). However, stock price fluctuations create uncertainty for investors. According to signalling theory, a rise in stock prices is generally perceived as a positive signal that management is performing well, thereby encouraging investors; conversely, a decline in stock prices is viewed as a signal of deteriorating corporate performance or the presence of risks that erode investor confidence (Alwyah & Arfatun, 2024). Grounded in signaling theory, this research deploys a robust conceptual framework to investigate how corporate performance indicators and macroeconomic dynamics coalesce to influence equity pricing. In this context, both internal operational metrics—namely, profitability measured by Earnings Per Share (EPS) and market valuation via the Price-Earnings Ratio (PER)—and external economic shocks, such as foreign exchange volatility and inflation, function as critical informational disclosures directed at market participants. Investors systematically interpret these complex cues to appraise an enterprise's financial integrity, managerial effectiveness, and vulnerability to future hazards. In essence, the collective behavioral response of the market to these overlapping information streams governs investor sentiment, which in turn acts as the primary catalyst for stock price fluctuations.

Investors generally place a high degree of trust in the stocks of companies in the LQ45 index, as a company's inclusion in this index indicates strong fundamentals, sound financial performance, and high liquidity in the capital market (Rahayu & Ika, 2023). Therefore, stocks in the LQ45 index serve as the primary benchmark for investors seeking to build investment portfolios that are relatively safe and have the potential to deliver stable returns. However, from 2019 to 2024, the closing prices of LQ45 index companies' stocks experienced significant fluctuations driven by the global health crisis and its trailing economic rebound.

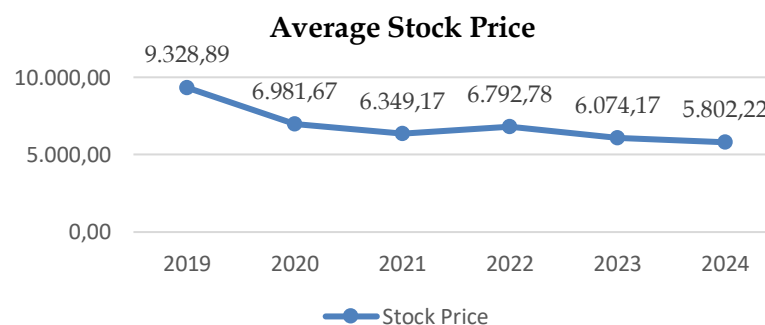


Figure 1. Average Stock Price

Source: Research Data, 2026

The graph illustrates dynamic fluctuations from 2019 to 2024. The highest price of Rp 9,328.89 was recorded in 2019, then dropped sharply to Rp 6,981.67 Amid the fallout of the coronavirus outbreak in 2020. The downward movement continued into 2021 with an average price of Rp 6,349.17, followed by a rapid recovery to reach Rp 6,792.78 in 2022. These fluctuating stock prices demonstrate the market's sensitivity to economic and geopolitical conditions. Therefore, when considering an investment, investors must analyse several factors to predict stock price movements, such as fundamental and macroeconomic analysis (Kahitela, 2023). Earnings Per Share (EPS) and the Price-Earnings Ratio (PER) serve as critical fundamental benchmarks because they directly encapsulate an enterprise's internal profitability and asset valuation, establishing the primary foundation for investors to gauge intrinsic value. Concurrently, the foreign exchange rate operates as an external macroeconomic indicator that dictates cost structures, market competitiveness, and foreign-denominated debt burdens. Furthermore, inflation is strategically positioned as a mediating variable—rather than a mere independent factor—because inflationary shocks act as a transmission mechanism that erodes public purchasing power, inflates operational expenditures, and compresses corporate profit margins. Consequently, inflation does not merely exert a direct, isolated effect; rather, it bridges and transforms broader macroeconomic pressures into shifts within fundamental performance metrics (EPS and PER), which are subsequently translated collectively by the market into stock price fluctuations.

Earning Per Share (EPS) serves as a primary fundamental indicator, quantifying a firm's profitability relative to each share of common stock. EPS information plays a pivotal role in how market participants evaluate a firm's future earnings. As a core gauge of profitability, EPS measures a firm's capacity to yield net earnings on a per-share basis (Budastra, 2023). This metric enables market participants to project prospective income, as it clarifies the exact yield accrued by every individual equity unit (Istiyowati & Putri, 2022). An increase in EPS can reflect a company's improved profit generation per outstanding (Tarmizi et al., 2022). Under the framework of signalling theory, an elevated EPS acts as a favorable indicator that enhances investor optimism and drives capital allocation. Similarly, the Price-Earnings Ratio (PER) is another fundamental factor influencing stock prices. PER compares a firm's current equity value relative to its net income on a per-share basis and is essential for assessing company performance and guiding investment decisions. As a market ratio, PER reflects whether a stock appears overvalued or undervalued and indicates investor confidence (Kahitela, 2023) and (Kholifah et al., 2023). In line with signalling theory, information regarding the Price-to-Earnings Ratio offers valuable perspective on a firm's operational health and future growth potential, which can ultimately influence its stock price. Several previous studies have also shown that the PER exerts a favorable and statistically meaningful influence on share values, making the relationship between the two worthy of further examination. Market participants similarly evaluate macroeconomic indicators—including the USD/IDR currency pair and inflation—as both variables exert a clear influence on equity valuations (Anggrainy & Nugroho, 2024). The exchange rate compares the value of two currencies, for example the U.S. dollar and the Indonesian rupiah

(Tarmizi et al., 2022). Appreciation of the domestic currency can boost export demand and cash inflows, strengthen company prospects, and positively impact stock prices (Santika et al., 2023).

The study's novelty is the inclusion of inflation as an intervening variable. Characterized by a broad and persistent rise in the cost of goods and services, inflation poses an inherent macroeconomic risk to commercial enterprises (Nurliandini et al., 2021). Rising inflation can depress stock prices, as investors typically view high inflation as a sign of weakening corporate prospects.

Previous empirical literature examining the link between Earnings Per Share (EPS) and equity valuations presents inconclusive evidence. (Ali et al., 2022); (Irawan et al., 2023); (Tantianty & Uzliawati, 2023) and (Feriadi et al., 2024) document a favorable and statistically meaningful impact of EPS on share valuations, whereas (Satriawan & Agustina, 2016); (Putra, 2023) and (Elizabeth, 2021) finds no statistically significant impact. These divergent findings highlight the need for further exploration of how EPS influences share valuations, specifically among LQ45 listed firms. Guided by signaling framework and prior research, the proposed hypothesis is as follows:

H₁: Earnings Per Share (EPS) influences stock price movements.

Regarding PER, studies by (Irawan et al., 2023); (Feriadi et al., 2024); (Pratama & Nur Hayati, 2023); (Kusjono1 & Nurazzahrm, 2023) and (Feriadi et al., 2024) demonstrated a favorable and statistically meaningful association between PER and share values. In contrast, (Feriadi et al., 2024) and (Rahayu & Ika, 2023) found no significant association. The discrepancies in the findings of previous studies underscore the need for further research to obtain more consistent results. Grounded in signalling theory alongside previous empirical literature, the following hypothesis is formulated:

H₂: Price Earning Ratio (PER) affects on stock price.

Concerning exchange rate, (Yunita & Robiyanto, 2018); (Prawoto & Putra, 2020); (Pranita, 2023), and (Puspitasari, 2021) established a relationship between exchange rate and stock price, while (Feriadi et al., 2024); (Pratama & Nur Hayati, 2023) found that exchange rates have no effect on stock prices in certain contexts of the Indonesian market, which further reflects the uncertain nature of macroeconomic signals for investors. Based on previous empirical findings, the following hypothesis is proposed:

H₃: Exchange rate affects on stock price.

A paramount macroeconomic factor in stock markets is inflation, defined by (Nurliandini et al., 2021). as a continuous and broad-based increase in general price levels. Investors rely heavily on this benchmark during decision-making, given that inflationary pressure represents an inescapable financial threat to business enterprises. When inflation rises, stock prices may potentially decline, as investors generally view high inflation as a sign of weakening corporate prospects. This is consistent with a study (Prawoto & Putra, 2020) and (Pranita, 2023) which states that inflation affects stock prices, these outcomes are best contextualized against research produced by (Pratama & Nur Hayati, 2023).

H₄: Inflation affects on stock price.

Inflation is a macroeconomic variable that can influence the relationship between EPS and stock prices. When EPS increases, investors typically respond

positively because the company is perceived as being able to generate higher profits. However, if inflation is high, that response may weaken because inflation is seen as increasing economic risk. In agreement with the work of (Hanga et al., 2023) inflation is expected to indirect the influence of EPS on equity values. Grounded in this premise, the study advances the hypothesis below:

H₅: Inflation acts as a mediating mechanism in the connection between EPS and stock prices.

As a key macroeconomic factor, inflation has the potential to moderate or alter the link between the Price-to-Earnings Ratio and equity pricing. A high Price Earning Ratio ratio generally indicates that investors have positive expectations regarding a company's prospects. However, when inflation rises, investor interest in stocks may decline because economic conditions are perceived as riskier. Thus, inflation is hypothesized to mediate the effect of the Price Earning Ratio on stock prices. Based on this discussion, the proposed hypothesis is:

H₆: Inflation mediates the effect of the PER on stock prices.

Inflation is a macroeconomic variable that can influence the relationship between exchange rates and stock prices. Exchange rates have a positive effect on inflation, meaning that when the exchange rate depreciates, inflation tends to rise, and this effect ultimately influences stock prices (Sari & Nurjannah, 2023). Thus, inflation is hypothesized to mediate the effect of exchange rates on stock prices (Hartono et al., 2025). Based on this discussion, the proposed hypothesis is:

H₇: Inflation mediates the effect of exchange rates on stock prices.

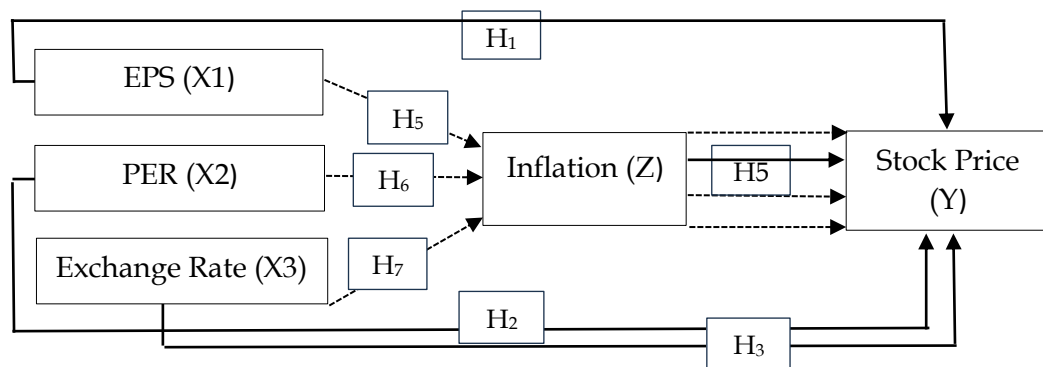


Figure 2. Research Model

Source: Research Data, 2026

RESEARCH METHOD

To validate the proposed hypotheses, this paper adopts a quantitative methodology rooted in systematic metrics, statistical testing, and empirical data analysis (Sugiyono, 2020). Secondary data was retrieved from the annual disclosures of companies listed on the LQ45 index between 2019 and 2024, compiled from Bank Indonesia (www.bi.go.id), Yahoo Finance, the Indonesia Stock Exchange (www.idx.go.id), and corporate websites. A total of 18 enterprises were identified using purposive sampling based on two main conditions: uninterrupted inclusion in the LQ45 index throughout 2019–2024 and full financial documentation denominated in Indonesian Rupiah. Table 1 details these sample selection standards.

Table 1 Sample Selection

No	Criteria	Did not meet criteria	Number
1.	Study Population: Companies registered under the IDX LQ45 Index		45
2.	Companies failing to sustain continuous LQ45 membership during the period 2019–2024	(23)	22
3.	Companies that did not report financial statements for 2019–2024	0	22
4.	Companies that do not report in Rupiah	(4)	18
Sample Companies			18
Total number of analysis units over 6 years			108

Source: Research Data, 2026

This study involves three independent variables EPS (X1), PER (X2), and exchange rate (X3) with the dependent variable being stock price (Y), and inflation serving as a control variable (Z).

Table 2 Operational Definition

Variable	Definition	Indikator	Scale
EPS (Budastra, 2023)	Net income allocated per outstanding share.	$\frac{EPS}{\text{Number of Outstanding Sha}}$	Ratio
PER (Kahitela, 2023)	An indicator measuring market price per share in relation to generated net earnings per share	$\frac{PER}{\text{Price Per Share}}$ Earning Per Share	Ratio
Exchange Rate (Santika et al., 2023)	The cross-border purchasing power or relative price of a national currency versus foreign currencies	$\frac{\text{Exchange Rate}}{\text{Selling Rate} + \text{Buying Rate}}$ 2	Ratio
Inflation (Alwyah & Arfatun, 2024)	Inflation is a general and sustained upward trend in prices.	Consumer Price Index	Ratio
Stock Price (Alwyah & Arfatun, 2024)	Equity pricing derived dynamically from the equilibrium between buying and selling pressures in the capital market	Closing Price	Ratio

Source: Research Data, 2026

In this study, data analysis was conducted using path analysis supported by EViews 12 software, along with Sobel tests To evaluate both direct and mediated relationships of EPS, PER, and the exchange rate on stock prices, with inflation as the mediating variable. data processing commenced with descriptive statistics, model specification tests, diagnostic tests for classical assumptions, and hypothesis verification using path analysis and the Sobel test within a panel data regression framework. As noted by (Madany et al., 2022) panel regression models are particularly suited for evaluating datasets that combine longitudinal time-series data with cross-sectional observations.

The panel data regression equation is as follows:

$$\text{Inflation} = \alpha + \beta_1 \text{EPSit} + \beta_2 \text{PERit} + \beta_3 \text{ExchangeRateSit} + \epsilon \dots\dots\dots (1)$$

$$\text{Stock Price} = \alpha + \beta_1 \text{EPSit} + \beta_2 \text{PERit} + \beta_3 \text{ExcRateSit} + \beta_4 \text{Infaltionit} + \epsilon \dots\dots (2)$$

Where,

α = constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = regression coefficients

EPSit = Earnings Per Share of company in period

PERit = Price Earning Ratio of company in period

ExchangeRateit = Exchange Rate of company in period

Inflationit = Inflation in period

ϵ = error term

According to Kuncoro (2013) as cited in (Santika et al., 2023) the prerequisites for testing classical assumptions in panel data regression are as follows: if the selected model is CEM or FEM (Ordinary Least Squares), the classical assumptions that must be tested are multicollinearity and heteroscedasticity. Meanwhile, if the selected model is REM (Generalized Least Squares), the classical assumptions tested are normality and multicollinearity

RESULT AND DISCUSSION

Descriptive statistics are used to describe the general characteristics of the research data and to provide preliminary information about the conditions of each variable being analyzed before further testing is conducted. The results of the descriptive statistical analysis are presented in Table 2.

Table 3 Descriptive Statistics

	Stock Price	EPS	PER	Exchange Rate	Inflation
Mean	6888.148	566.220	22.094	14833.830	2.660
Median	6575.000	339.380	16.760	14721.500	2.240
Maximum	42000.000	5679.490	216.740	15847.000	5.510
Minimum	840.000	8.070	3.370	14146.000	1.570
Std, Dev	6405.845	956.857	24.959	58.283	1.354

Source: Research Data, 2026

The mean stock price was calculated at 6,888.15, ranging from a minimum of 840.00 to a peak of 42,000.00, accompanied by a standard deviation of 6,405.85. This substantial standard deviation highlights significant dispersion in equity valuations across the sampled firms. Such variation implies pronounced disparities in market pricing over the observation period, underscoring the heterogeneous nature of the sampled enterprises.

Earnings Per Share (EPS) demonstrated a mean of 566.22, with bounds between a minimum of 8.07 and a maximum of 5,679.49, accompanied by a standard deviation of 956.86. The fact that the standard deviation exceeds the mean reflects substantial dispersion in profitability per share across the sampled entities. This divergence in earning power shapes investor sentiment regarding firm growth potential, thereby exerting a direct influence on equity valuations.

The Price-to-Earnings Ratio (PER) recorded an average of 22.09, bounded by a minimum of 3.37 and a maximum of 216.74, with a standard deviation of 24.96. The observation that the standard deviation exceeds the mean underscores significant variation in market valuation metrics across the sampled enterprises. This suggests that there are companies with both high and low valuations, so

investors' decisions in evaluating stocks are influenced not only by the PER but also by fundamental factors and market conditions.

The exchange rate had an average value of 14,833.83, with a minimum value of 14,146.00, a maximum value of 15,847.00, and a standard deviation of 58.28. The relatively small standard deviation indicates that the rupiah exchange rate during the study period tended to be stable. Nevertheless, changes in the exchange rate can still affect a company's performance—particularly for companies engaged in export and import activities—and thus have the potential to influence stock prices.

Inflation had an average value of 2.66%, with a minimum value of 1.57%, a maximum value of 5.51%, and a standard deviation of 1.35. A standard deviation smaller than the average value indicates that the inflation rate during the study period was relatively stable. This condition reflects economic stability, meaning that inflation fluctuations during the study period were not particularly significant, and its impact on stock prices may vary across different corporate sectors.

Selection The results of the panel data regression model selection tests are reported in Table 3.

Table 4 Results of Selection of Panel Data Regression Model

No.	Method	Testing	Prob. Value	Conclusion
1.	Chow Test	CEM vs FEM	0.0000	FEM
2.	Hausman Test	REM vs FEM	1.0000	REM
3.	Lagrange Multiplier Test	CEM vs REM	0.0000	REM

Source: Research Data, 2026

Based on the panel model specification diagnostics, the Chow test produced a p-value of 0.0000 ($p < 0.05$), confirming that the Fixed Effects Model (FEM) outperforms the Common Effects Model (CEM). Subsequently, the Hausman test yielded a p-value of 1.0000 ($p > 0.05$), favoring the Random Effects Model (REM) over the FEM. To resolve the model selection, the Lagrange Multiplier (LM) test was performed, resulting in a p-value of 0.0000 ($p < 0.05$), which ultimately establishes the Random Effects Model (REM) as the optimal specification over the CEM.

The Random Effects Model (REM) was established as the panel data regression model in this study. These results indicate that differences in characteristics across firms are random and must be taken into account in the analysis. In accordance with diagnostic requirements for the chosen Random Effects Model (REM), the classical assumption evaluations were restricted to tests for normality and multicollinearity.

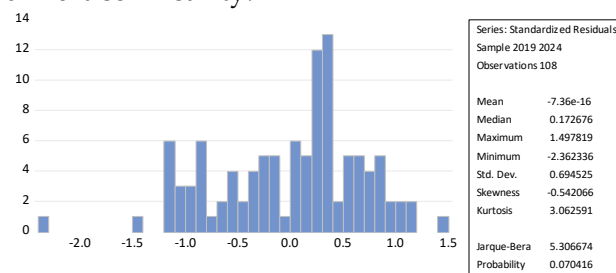


Figure 3. Normality Test

Source: Research Data, 2026

The diagnostic assessment yielded a Jarque-Bera statistic of 5.306574 with probability 0.070416. Because the probability exceeds the 0.05 significance threshold, the error terms conform to a normal distribution. This outcome is further substantiated by the residual histogram, which closely aligns with a bell-shaped profile featuring a mean near zero, a skewness of -0.542066, and a kurtosis of 3.062591. These metrics confirm the absence of substantial distributional skewness, establishing that the normality prerequisite is satisfied. Consequently, the panel specification is well-suited to proceed with testing the effects of EPS, PER, exchange rates, and inflation on equity prices.

Table 5 Multicollinearity Test

	EPS (X)	PER (X2)	Exchange Rate (X3)	Inflation (Z)
EPS (X1)	1.000	-2.238	0.097	0.071
PER (X)	-2.238	1.000	-0.279	-0.022
Exchange Rate (X3)	0.097	-0.279	1.000	-0.084
Inflation (Z)	0.071	-0.022	-0.084	1.000

Source: Research Data, 2026

The results of the multicollinearity test show that the correlation coefficients among the independent variables—namely, EPS, PER, exchange rate, and inflation—are all below the 0.80 threshold. These results indicate that the relationships among the independent variables are not strong enough to cause multicollinearity in the research model. Since multicollinearity was not found, each independent variable can explain its effect on stock prices without a strong relationship with the other independent variables.

Table 6 Panel Data Regression Analysis Model 1

Variable	Coefficient	Std, Error	t-Statistic	Prob,
C	6.077531	3.797395	1.600447	0.112500
EPS (X1)	0.000103	0.000153	0.673667	0.502000
PER (X2)	-0.001780	0.006062	-0.293654	0.769600
Exchange Rate (X3)	-0.000232	0.000253	-0.914352	0.362600

Source: Research Data, 2026

Empirical estimation of the panel regression for Model 1 yielded an intercept coefficient of 6.077531, along with regression coefficients of 0.000103 for EPS (X1), -0.001780 for PER (X2) and -0.000232 for Exchange Rate (X3). Integrating these parameter estimates into the panel regression specification produces the following equation:

$$\text{Inflation} = 6.077531 + 0.000103 - 0.001780 - 0.000232 \dots\dots\dots (3)$$

The meaning of this equation is that the number 6.077531 is a constant; it represents the average inflation rate when all independent variables (EPS, PER, Exchange Rate) are zero. The EPS coefficient of 0.000103 suggests that holding all else equal, a single-unit rise in EPS corresponds to a 0.000103 increase in inflation, though this relationship lacks statistical significance. Similarly, the PER parameter (-0.001780) reflects a 0.001780 reduction in inflation per unit increase in PER, but this marginal effect is likewise statistically insignificant. Lastly, the exchange rate coefficient (-0.000232) implies that a one-unit appreciation in exchange rates is accompanied by a 0.000232 decline in inflation, an impact that similarly fails to achieve statistical significance.

Table 7 Panel Data Regression Analysis Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.13851	0.711855	14.24238	0.0000
EPS (X1)	0.000177	6.04 e-05	2.938153	0.0041
PER (X2)	0.007022	0.001225	5.730803	0.0000
Exchange Rate (X3)	-0.000129	4.63E-05	-2.785144	0.0064
Inflation (Z)	0.018030	0.018740	0.962079	0.3383

Source: Research Data, 2026

Based on the results of the panel data regression analysis for Model 2, the constant term was found to be $a = 10.13851$, the regression coefficient for the EPS variable (X1) was 0.000177, the regression coefficient for PER (X2) of 0.007022, the exchange rate (X3) coefficient of -0.000129, and the inflation (Z) coefficient of 0.018030. These values were then applied to the panel data regression equation as follows:

$$\text{Stock Price} = 10.13851 + 0.000177 + 0.007022 - 0.000129 + 0.018030 \dots\dots\dots(4)$$

The baseline constant of 10.13851 represents the expected stock price level when all predictor variables are held at zero. Earnings Per Share (EPS) validates H_1 indicating that a single-unit rise in EPS corresponds to a 0.000177 upward movement in share price. This positive coefficient suggests that market participants view EPS as a primary proxy for corporate profitability. Higher EPS figures elevate investor expectations regarding future firm growth, stimulating stock demand and subsequently driving up market valuations. This outcome strongly aligns with Signalling Theory, which posits that elevated profitability acts as a favorable signal (good news) to the market, enhancing investor confidence. These empirical insights are consistent with prior findings by (Ali et al., 2022); (Irawan et al., 2023); (Tantianty & Uzliawati, 2023) and (Feriadi et al., 2024), who found that EPS has a positive and significant effect on stock prices. Furthermore, the study (Samudra et al., 2026) confirm that EPS operates as a critical fundamental driver that positively and significantly influences stock prices, serving as a core benchmark in investment decision-making.

Demonstrating a positive relationship 0.007022, the Price-to-Earnings Ratio (PER) provides empirical support to accept H_2 . This result suggests that elevated PER levels reflect optimistic market expectations regarding a firm's future profit growth. Consequently, market participants demonstrate a willingness to pay a premium for equity shares based on confidence in the enterprise's long-term financial outlook. This situation increases demand for the stock in the market, thereby driving up the stock price. These research results are consistent with Signalling Theory, which states that a high PER is a positive signal (good news) regarding a company's prospects. The PER value reflects investor optimism regarding future earnings growth, thereby increasing investor confidence and driving up stock prices. These findings are supported by (Irawan et al., 2023); (Feriadi et al., 2024); (Pratama & Nur Hayati, 2023); and (Kusjono1 & Nurazzahrm, 2023) who state that the PER reflects market expectations regarding a company's profit growth. Furthermore, (Feriadi et al., 2024) also demonstrate that the PER is one of the ratios investors consider when assessing a company's prospects and making investment decisions, thereby contributing to an increase in stock prices.

The exchange rate has a negative effect with a coefficient of -0.000129, meaning that a one-unit increase in the exchange rate reduces the stock price by 0.000129, and H_3 is accepted. These findings indicate that a weakening of the rupiah against the U.S. dollar is followed by a decline in stock prices. This occurs because the depreciation of the rupiah increases operating costs, particularly for companies that rely on imports or have liabilities denominated in foreign currencies. These increased costs can put pressure on corporate profits, thereby reducing investor interest and causing stock prices to fall. These research results are consistent with Signalling Theory, which states that a weakening exchange rate is a negative signal (bad news) for investors because it reflects increased risk and economic uncertainty. Conversely, a strengthening exchange rate indicates more stable economic conditions, which can boost investor confidence and drive stock prices higher. These findings are supported by research by (Yunita & Robiyanto, 2018); (Prawoto & Putra, 2020), and (Pranita, 2023), which states that a weakening exchange rate has a negative effect on stock prices because it increases a company's operating costs. Similar results were also found by (Puspitasari, 2021), who showed that the exchange rate has a negative and significant effect on stock prices. Furthermore, (Yunita & Robiyanto, 2018) concluded that a weakening exchange rate increases market uncertainty, leading to a decline in stock prices.

Meanwhile, inflation, with a coefficient of 0.018030, does not have a effect on the stock price, so H_4 is rejected. These findings indicate that changes in inflation during the study period were not significant enough to influence investment decisions or stock price movements of LQ45 companies. These results are inconsistent with Signalling Theory, which posits that changes in macroeconomic conditions can serve as signals to investors. During the 2019–2024 period, inflation remained relatively stable at an average of 2.66%, so its impact on corporate performance and stock prices was limited. Under these conditions, investors tend to place greater emphasis on corporate fundamentals—such as profit-generating capacity and growth prospects—rather than the inflation rate. This finding is supported by (Prawoto & Putra, 2020) and (Pranita, 2023) who concluded that inflation does not affect stock prices. Similar results were also found by (Ajuna, 2025) who showed that relatively stable inflation does not significantly affect stock prices, leading investors to focus more on a company's fundamental factors when making investment decisions.

In this study, the Sobel test calculator available at www.danielsoper.com was used to test the significance of the intervening variable. The following are the results of the Sobel test calculations.

Table 8 Sobel Test

Route	Sobel Test Statistic	Probability
EPS → Inflation → Stock Price	0.55	0.58
PER → Inflation → Stock Price	-0.28	0.77
Exchange Rate → Inflation → Stock Price	-0.66	0.50

Source: Research Data, 2026

Based on the Sobel test outputs, the indirect path evaluating inflation as a mediator between EPS and stock prices produced a test statistic of 0.55 with probability 0.58. Because the probability exceeds standard significance levels, inflation fails to act as a mediating mechanism, leading to the rejection of H_5 .

Because Earnings Per Share (EPS) inherently tracks a firm's net profitability per equity share, its shifts originate primarily from internal operational factors – such as revenue growth, cost optimization, productivity, and capital structuring. Conversely, national inflation is an aggregate macroeconomic phenomenon driven by broad market price movements. Thus, an individual firm's EPS changes do not directly drive macroeconomic inflation. This weak causal linkage is further underscored by Indonesia's economic conditions between 2019 and 2024. In 2020, despite pandemic-induced disruptions and restricted mobility, national inflation remained subdued at 1.68%. On the other hand, when inflation peaked at 5.51% in 2022, it was predominantly triggered by global commodity shocks and government-regulated price adjustments rather than individual corporate earnings. As a result, the EPS-to-inflation pathway remains weak because EPS captures micro-level corporate realities, whereas inflation is shaped by broader macro-level forces. This explains why corporate earnings fluctuations are insufficient to trigger systemic inflation changes that could act as a transmission channel to stock prices. Regarding the inflation-to-stock-price pathway, while inflation theoretically impacts equities through production costs, purchasing power erosion, and real returns, inflation remained relatively well-anchored throughout most of the study period. After peaking in 2022, inflation moderated to 2.61% in 2023 and 1.57% in 2024, remaining comfortably within Bank Indonesia's target corridor of 2.5% $\pm$ 1% (with core inflation at 2.26%). This indicates that the 2022 inflationary spike was transitory rather than structural. Accordingly, market actors saw no necessity to recalibrate equity valuations based on short-term price index shifts, prioritizing firm-specific fundamentals like EPS instead. Viewed through the lens of Signaling Theory, EPS serves as a highly targeted indicator of corporate health compared to broad macroeconomic noise. When EPS rises, investors receive a direct cue regarding profitability, allowing them to react immediately without requiring inflation as an intermediate mechanism. This explains the statistical insignificance of regional or indirect pathways from EPS to stock prices via inflation. These insights mirror findings by (Ajuna, 2025) and (Nugroho, 2024), who confirmed that fundamental corporate metrics override inflationary context in equity valuation decisions.

Regarding the relationship between PER and Stock Price, the statistical value was -0.28 with a probability of 0.77. This value indicates that inflation does not mediate the relationship between PER and Stock Price; therefore, H_6 is rejected. The Price-Earnings Ratio (PER) reflects market valuation, driven by share prices, earnings, growth expectations, and risk, tying it directly to equity pricing rather than aggregate inflation. Economic data from 2019 to 2024 confirms this disconnect: during the 2020 pandemic, Indonesia's GDP contracted by 2.07% while inflation dropped to 1.68%, and the 2022 inflation surge to 5.51% stemmed from global commodity shocks rather than corporate PER changes. Consequently, the PER-to-inflation pathway remains weak. Regarding the inflation-to-stock-price link, although inflation theoretically impacts equity valuation through interest and discount rates, market reactions depend largely on monetary intervention. After peaking in 2022, inflation moderated to 2.61% in 2023 and 1.57% in 2024, alongside Bank Indonesia's active rate adjustments (e.g., raising the BI-Rate to 6.25% in April 2024 before easing to 6.00%). Because investors evaluate both price prints and

anticipated central bank responses, inflation's influence is too complex to act as a strong mediator. Ultimately, grounded in Signaling Theory, investors prioritize PER because it provides immediate, firm-specific granularity regarding valuation and growth expectations, making macro-level inflation shifts a secondary, non-significant mediator. This finding is consistent with the study by (Usnia & Efendi, 2024) which indicates that investors prioritize direct signals from the PER as an indicator of stock valuation, whereas the influence of inflation as a macroeconomic variable is not strong enough to alter market perceptions that have already explicitly taken this factor into account.

Furthermore, regarding the relationship between the Exchange Rate and Stock Price, the statistical value is -0.66 with a probability of 0.50. Unlike EPS and PER, the exchange-rate-to-inflation link relies on "exchange rate pass-through," where local currency depreciation theoretically drives up import costs and consumer prices. However, this pass-through is constrained by domestic demand and central bank intervention. Data from 2019 to 2024 demonstrates this limit: post-pandemic inflation spikes (5.51% in 2022) stemmed from global commodity shocks, while proactive monetary policy by Bank Indonesia kept inflation well-contained in 2023 (2.61%) and 2024 (1.57%) despite ongoing US dollar pressures. Thus, currency depreciation does not automatically cause domestic inflation. Regarding the inflation-to-stock-price link, corporate vulnerability varies widely; export-oriented firms often benefit from a weaker local currency through higher foreign earnings, while import-dependent firms suffer. Because inflation lacks a uniform impact across business models, it fails as a consistent transmission channel. Ultimately, exchange rates impact stock prices directly through corporate fundamentals—such as export performance, foreign-denominated debt, and capital flows—rather than via inflation. This finding is consistent with the study by (Usnia & Efendi, 2024) which indicates that the effect of inflation as a macroeconomic variable is not strong enough to alter market perceptions that have already explicitly taken this factor into account.

CONCLUSION

This study shows that EPS and PER have a positive and significant effect on stock prices, the exchange rate has a significant negative effect on stock prices, while inflation has no effect on stock prices. Furthermore, inflation as a mediator is unable to mediate the relationship between EPS, PER, the exchange rate, and stock prices. These findings provide empirical evidence that EPS, PER, and the exchange rate directly influence stock prices, and that inflation is not able to mediate the relationship between EPS, PER, the exchange rate, and stock prices.

This study has several limitations, such as the use of secondary data from the LQ45 index over a 6-year period and the use of only 3 dependent variables with 1 intervening variable.

The results of this study may not be generally applicable to other sectors and do not yet capture all factors influencing stock prices. The limitation of the sample to a specific time period may also affect the findings and the relevance of this study for future periods. Therefore, future research is recommended to expand the scope of the study to other sectors, include other potential variables that may

influence stock prices, and extend the observation period, given that each year has different characteristics and dynamics in stock prices.

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