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The Influence of Fundamental Factors on Stock Returns with Exchange Rate as Moderation Variable

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Abstract

Return are one of the motivators to invest in financial asset in the capital market. Investors used fundamental factor as a signal to gain maksimal return. The aims of the study are to determine the effect of fundamental factor on stock return with exchange rate as a moderating variable. Fundamental factor is measured by the ratio of Return on Assets, Debt to Equity Ratio, and Current Ratio. The sample of this study of 20 companies listed on LQ45 index in Indonesian Stock Exchange (IDX) selected using the purposive sampling method, with 120 observations during the 2015-2020 period. Methode of data analysis using multiple linier regression analysis and moderated regression analysis (MRA) with the application of Eviews 9. The results show that Return on Assets have a significant positive effect on the stock returns, while the Debt to Equity Ratio and Current Ratio has no significant effect. MRA results indicate that exchange rate can streng the influence of Return on Assets and Debt to Equity Ratio, and weaken Current Ratio on the stock returns.

INTRODUCTION

Stock market investment is one the central role in Indonesia's economic growth. Financial assets are a form of productive assets that can be selected in capital market investment. Recorded in 2020, in the economic crisis as a result of the Covid-19 pandemic investment supports economic growth of 4,95% yoy higher than other factors such as government consumption of 1,94% yoy, and household consumtion of 2,63% yoy (Bank Indonesia, 2021)

The capital market has two important functions in the economy of a country, namely the financial function and the economic function (Basarda et al., 2018). The capital market provides facilities for efficient capital allocation for those who have excess funds and need funds. This will increase industrial growth and prosperity rate. One of the capital markets in Indonesia is the Indonesia Stock Exchange (IDX).

Development of the capital market in Indonesia is evidenced by the number of companies listed. Sourced from www.idx.co.id the number of companies registered as of Juli 2021 is 741 with a total trading volume of 14.103 million shares. Basically, the investment activities aim to maximize the expected return within the acceptable risk limits for each investor (Setyawati & Amalia, 2018).

The Indonesia Stock Exchange (IDX) determines the stock index as the overall price movement of securities traded in the capital market (Suhadak et al., 2019). According to Basarda et al. (2018) stocks in the LQ45 Index have growth prospects with the lowest risk compared to other indexes on the IDX. The growth rate of return on investment in stocks with the IDX Index can be seen from the Return yoy (year on year). The following are the performance trend of the IDX Index shown in Figure 1 :

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Figure 1. Trend of Index Performance on IDX

Company shares in the LQ45 Index are stocks with a higt level of liquidity, capitalization, and trading frequency. Therefore, an investor need to analyze the company's fundamental performance. Fundamental analysis considers financial statements as a illustration of the company's financial performance (Juwita & Diana, 2020). Financial performance can be seen from the financial statements through the financial ratios owned by the company. Fundamental factors in this study are measured by the ratio of Return on Assets, Debt to Equity Ratio, and Current Ratio. This study also includes macroeconomic variables using the exchange rate.

Finacial theory has emphasized the company's fundamental factors as a signal or predictor of stock returns. Based on Signalling Theory (Ross, 1997) company executives have more accurate information about the company will convey information to potential investors with the aim of increasing stock price. According to Suhadak et al. (2020) financial statements as a form of fundamental factor are signals that companies give to investor.

ROA shows the company's ability to generate profits from the assets used. Companies with high ROA show the company's management is effective in using its assets (Ratih & Candradewi, 2020). Company strength in generating high profits can be interpreted that the company has a high return so that investors demand for shares is increasing. This is supported by research conducted by Erzad and Erzad (2017) and Santosa (2019) that ROA has a significant positive effect on stock returns. However, several previous studies have found that ROA has a significant negative effect (Aldiena & Hakim, 2019).

Another fundamental factors are Debt to Equity Ratio. DER can be interpreted as the proportion of debt to finance the company's assets on its own capital. Yani et al. (2020) stated that the bigger the company's loan to finance potential growth, the greater investor risk as owners of funds. Debt usage results in increasing suboptimal investment risk (Martono et al., 2020). Investors interpret signals by reacting to the stock market. Companies with high debt have an impact on reducing dividend payments to avoid the transfer of wealth from creditors to shareholders (Mahfudz & Wijayanto, 2020). This is supported by research conducted by Basarda et al. (2018) and Santosa (2019) that DER has a significant negative effect on stock returns. However, researchers Aldiena and Hakim (2019) have previously found a positive relationship between DER and stock returns.

Investors in addition to measure the company's ability to pay off long-term liability, also measure the company's liquidity. Current Ratio is a liquidity ratio that shows the amount of current assets in paying off current liabilities. According to Arisandi (2014) the increase in the CR value indicates the availability of excess cash flow as a result of the profit earning on the company's expansion. This is supported by research conducted by Ruiz et al. (2018) and Basarda et al. (2018) that CR has a significant positive effect on stock returns.

Some modern financial researchers analysis the fundamental factors other than financial ratios, also related to macroeconomics. According to Maharditya et al. (2018) macroeconomic indicators that affect stock returns in Indonesia are related to stock price volatility, namely the exchange rate. Companies with hight capitalization trade beetwen countries which result in differences in exchange rates or kurs. Exchange rates in the stock market are related to the portofolio balance approach (Sikhosana & Aye, 2018).

Rasyad et al. (2020) in the research shows financial performance and macroeconomic factors as a moderating variable on stock returns. Macroeconomic factors using inflation proxy only strengthen the relationship between leverage ratios and stock returns. The researcher suggests using the macroeconomic variable of the exchange rate as a moderating variable. Research from Santosa (2019) shows that the rupiah ecxhange rate against the US dollar is able to moderate the relationship between financial performance and stock returns.

Based on the previous background, the purpose of this study is to determine the effect of the company's fundamental factors as measured by Return on Assets, Debt to Equity Ratio, and Current Ratio on company stock returns in the LQ45 Index listed on the Indonesia Stock Exchange for the period 2015-2020. In addition, this study includes the exchange rate as a mode-

rating variable.

Hypotheses Development

Retun on Assets is financial data that has the highest explanatory power as a predictor of stock returns (Goodarzi, 2017). Efforts to increase the company's ROA are related to increasing profit margin. Aldiena and Hakim (2019); Yani et al. (2020); Izuddin (2021) in their research use the Return on Assets to measure the company's fundamental factors. Investors consider that the performance of the company's fundamental factors is a signal in making investment decisions.

Return on Assets in influencing changes in stock prices is assessed because it has efficient working capital management and good market performance (Anwaar, 2016). ROA shows the company's ability to manage assets to obtain net income. The increase in ROA on the company's earnings will increase investor confidence because the company is considered to have good financial prospects. Thus, the proposed hypothesis is as follows:

H1: Return on Assets (ROA) has a positive effect on stock returns

According to Sulaeman et al. (2018) Debt to Equity Ratio shows the composition of the total debt owned by the company. Investors in the risk averse category tend to avoid stocks with a high level of risk or prioritize investment security. Ruiz et al. (2018) in the research shows that companies with hight growth performance tend to have low levels of leverage.

Research on DER on stock returns shows that an increase in this ratio will reduce returns due to a high debt burden (Izuddin, 2021). Debt used in the company's operations will result in an interest expense. The interest expense that arises on financial transactions shows that companies with less total debt have more stable financial performance. Thus, the proposed hypothesis is as follows:

H2: Debt to Equity Ratio (DER) has a negative effect on stock returns

According to Hidayat and Thamrin (2019) liquidity in investment decisions is positive by the financial market. For investors Current Ratio as a company's liquidity ratio is important to know the prospect of dividend payments that are expected to be received. The increase in the CR value shows the ability to meet operational needs, especially working capital which is getting better (Arisandi, 2014).

Companies use working capital to maintain company performance which in turn affects stock returns. This is in consistent with signalling theory where the company will give a positive signal so that investors are interested in investing. The increase in share sales compared to the previous year's sales is directly proportional to the increase in stock returns. Thus, the proposed hypothesis is as follows:

H3: Current Ratio (CR) has a positive effect on stock returns

Tanderlilin (2010) states that the return as a prospect of profit generated by the company is influenced by macroeconomic conditions. Exchange rate changes or kurs have an impact on stock market activity. According to Listriono and Nuraina (2015) appreciation of the exchange rate will attract investors to invest in the form of foreign exchange dollars, on the contrary when the dollar decreases, investors prefer to invest in the capital market or stocks. Stock selling activity as a result of the depreciation of the domestic currency causes a decrease in stock returns (Wijaya & Sedana, 2020).

A decrease in the price of a commodity as a result of a decline in the exchange rate becomes an attraction for other countries to import goods or services. According to Ndlovu et al. (2018) the increase in exports has made domestic companies more competitive in their operations. This shows the probability of the exchange rate relationship to the movement of the Composite Stock Price Index (IHSG) in the capital market in Indonesia. Thus, the proposed hypothesis is as follows:

H4: Exchange Rate moderates the effect of Return on Assets (ROA) on Stock Returns

H5: Exchange Rate moderates the effect of Debt to Equity Ratio (DER) on Stock Returns

H6: Exchange Rate moderates the effect of Current Ratio (CR) on Stock Returns

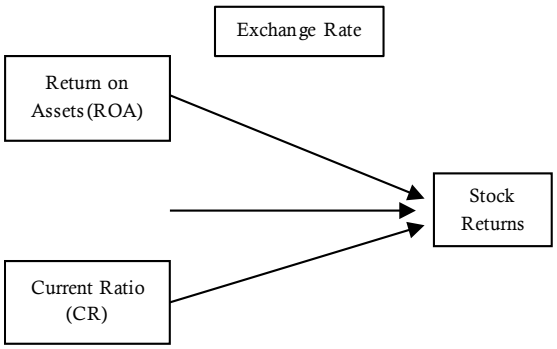

Figure 2. Research Model

This type of research uses quantitative research methods. The quantitative data used are secondary data in the form of annual financial reports for the company's fundamental factors (www.idx.co.id), exchange rates from the official website of Bank Indonesia (www.bi.go.id), and closing stock prices to calculate annual stock returns from the website (www. .investing.com).

The population in this study is the companies listed on LQ45 index in Indonesian Stock Exchange (IDX) in the period 2015-2020. The sampling technique using purposive sampling, namely sampling by providing certain criteria im accordance with the research (Suharyadi & Purwanto, 2016). With the following criteria: (1) Companies listed on LQ45 index witch did not delisted during period 2015-2020 (2) Companies that are listed consistent on the LQ45 Index period 2015-2020 (3) Companies listed on LQ45 index non-financial sector period 2015-2020 (4) Companies listed on LQ45 index that provide data needed in research.

Based on these criteria, a sample of 20 companies listed on LQ45 index in Indonesian Stock Exchange (IDX) during the period 6 years, with a total of 120 obsevations. The variables used in this study include stock returns, return on assets, debt to equity ratio, current ratio and exchange rate. Return is the level of profit enjoyed by investors for the investment actions that have been taken (Nurmalasari & Yulianto, 2015). Stock return is the change in the current stock price from the previous period. The number of stock returns in this research is determined using the following formula (Rasyad et al., 2020):

$$R = \frac{\text{Closing Price of Stock}_t - \text{Closing Price of Stock}_{t-1}}{\text{Closing Price of Stock}_{t-1}}$$

Profitability ratio as a fundamental factor in measuring the company's ability to generate profit margins. The amount of ROA in this research is determined using the following formula (Musallam, 2018):

$$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}}$$

Solvency ratio as a fundamental factor to measure the level of use of debt to the total shareholder's equity owned by the company. The amount of DER in this research is determined using the following formula (Erzad & Erzad, 2017):

Liquidity ratio as a fundamental factor in measuring the company's ability to pay off short-term obligations. The amount of CR in this research is determined using the following formula (Yani et al., 2020):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

This study uses macroeconomics as a moderating variables. According to Basuki and Prawoto (2015:95) the purpose of this analysis is to find out the moderating variable will be able to strengthen or weaken the relationship between the independent variable and the dependent variable. The exchange rate or kurs of the rupiah against the US dollar determined by Bank Indonesia. The amount of kurs in this research is determined using the following formula (Santosa, 2019):

$$CR = \frac{\text{Total Current Asset}}{\text{Total Current Liability}}$$

This study uses pooled data which is a combination of cross section and time series data (Ghozali & Ratmono, 2018: 49). The test is carried out using multiple linear regression analysis to examine the effect of fundamental factors on stock returns in equation 1 and Moderated Analysis Regression (MRA) in equation 2. The model in this study is as follows:

$$R_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 CR_{it} \ldots \ldots (1)$$

$$R_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 CR_{it} + \beta_4 ROA_{it} KURS_{it} + \beta_5 DER_{it} KURS_{it} + \beta_5 CR_{it} KURS_{it} + \varepsilon \ldots \ldots (2)$$

Noted :

R	: Stock returns
α	: Konstanta
β_1 - β_7	: Regression coefficient
ROA	: Variable of profitability ratio
DER	: Variable of leverage ratio
CR	: Variable of liquidity ratio
KURS	: Variable of macro economi
ROA * KURS	: Interaction of ROA and KURS
DER * KURS	: Interaction of DER and KURS
CR * KURS	: Interaction of CR and KURS
ε	: Error term

RESULT AND DISCUSSION

Descriptive statistical analysis

Descriptive statistical analysis is used to provide an overview or to describe a statistical

data. Descriptive statistical analysis in this study includes: mean, standard deviation, maximum and minimum (Ghozali & Ratmono, 2018:. 31). The results of descriptive statistical analysis can be seen in Table.1 below:

Table 1. Descriptive Statistical Analysis

	RETURN	ROA	DER	CR	KURS
Mean	0.025754	0.176686	1.022750	2.018696	13841.42
Median	-0.016200	0.066150	0.760000	1.675550	13769.15
Maximum	2.291300	4.539400	3.310000	4.886600	14572.26
Minimum	-0.549000	-0.028600	0.140000	0.012700	13307.38
Standard Dev.	0.368003	0.561958	0.844448	1.148075	499.9913
Observations	120	120	120	120	120

Based on Table 1, overall from 120 observations in this study obtained an average value of stock return of 0.025754 in the 2015-2020 time span. The maximum RETURN value is 2.291300 while the minimum RETURN value is -0.549000. The standard deviation of RETURN is 0.368003 for the period 2015-2020.

The results showed that the average Return on Assets of 0.176686 in the 2015-2020 time span. The maximum value of ROA is 4.539400 and the minimum value of ROA is -0.028600. ROA standard deviation is 0.561958 for the period 2015-2020.

The results showed that the average Debt to Equity Ratio of 1.022750 in the 2015-2020 time span. The maximum value of DER is 3.310000 and the minimum value of DER is 0.140000. DER standard deviation is 0.844448 for the period 2015-2020.

The results showed that the average Current Ratio of 2.018696 in the 2015-2020 time span. The maximum value of CR is 4.886600 and the minimum value of CR is 0.012700. CR standard deviation is 1.148075 for the period 2015-2020.

The results showed that the average exchange rate of 13841.42 in the 2015-2020 time span. The maximum value of KURS is 14572.26 and the minimum value of KURS is 13307.38. KURS standard deviation is 499.9913 for the period 2015-2020.

Selecting Panel Data Estimation Model

Estimation aims to choose the best method to determine the regression model. The panel data estimation method is carried out through three approaches: Common Effect Model, Fixed Effect Model, and Random Effect Model (Basuki & Prawoto, 2015:252). The selection of the most appropriate panel regression estimation method can be done by performing several tests.

Regression model I

Table 2. Chow Test

	Statisctic	Prob.
Cross Section F	0.704052	0.8065
Cross Section F		
Chi-Square	15.502883	0.6901

Table 3. Lagrange Multiplier test

	Cross-section
Breusch-Pagan	2.169614
	(0.1408)

Based on the regression model I after Chow test showed the value of Cross-section Chi-square 0.6901. Then the next process is Lagrange Multiplier test with Breusch-Pagon method the p-value is 0.1408 (> 0.05), then the best estimation method for regression model I is the Common Effect Model or Pooled OLS.

Regression model II

Table 4. Chow Test

	Statisctic	Prob.
Cross Section F	0.863673	0.6270
Cross Section F		
Chi-Square	19.308488	0.4372

Table 5. Lagrange Multiplier test

	Cross-section
Breusch-Pagan	1.793618
	(0.1805)

Based on the regression model II after Chow test showed the value of Cross-section Chi-square 0.4372. Then the next process is Lagrange Multiplier test with Breusch-Pagon method the p-value is 0.1805 (> 0.05), then the best estimation method for regression model II is the Common Effect Model or Pooled OLS.

Classic Assumption Test

According to the Gauss-Markov theory in the Pooled OLS model it must meet the BLUE criteria (Best Linear Unbiased Efficient Estimator) (Gujarati & Porter, 2015:95). Classical assumption testing is used to test the regression model in accordance with showing a significant relationship.

The data for the regression equations I and II show that the residuals are not normally distributed. Ourlier test or identification of data that experienced deviations from the average was carried out (Basuki, 2015:89). The test results show that 6 observational data experienced outliers, so that the total data used in the study were 114 observations. After the outlier test, the probability value of the Jarque-Bera (JB) regression model I and II was 0.558683 and 0.841217 (> 0.05), meaning that the residual data were normally distributed with a 95% confidence level.

The multicollinearity test shows that the correlation matrix between variables for the multiple linear regression model is 1.2481531, 1.862903, 1.954321 and the moderating regression model is 1.248143, 1.839364, 1.931237. The test results are under the terms of Variance Inflation Factor (VIF) < 10, meaning that the prediction model is free from multicollinearity problems.

Heteroscedasticity test with glejser test on multiple linear regression model and moderation regression model are 1.129935 and 8.833930. The results show that Obs*R-squared has a probability value (> 0.05), meaning that the prediction model is free from heteroscedasticity problems.

The autocorrelation test was carried out by comparing the Durbin-Watson value with the DW table (Ghozali & Ratmono, 2018:122). The results for the regression models I and II show du < d < 4 - du, meaning that there is no negative or positive autocorrelation so that the data is feasible to use.

Goodness of Fit test

Table 6. Goodness of Fit test

	Model I	Model II
R-squared	0.079160	0.117989
Adjusted R-squared	0.054046	0.068531
S.E. of regression	0.219856	0.218166
Sum squared resid	5.317018	5.092814
Log likelihood	12.96229	15.41798
F-statistic	3.152050	2.385623
Prob(F-statistic)	0.027833	0.033411

Based on table 6 the coefficient of determination shows the value of Adjusted in the regression models I and II 5.4% (0.054046) and 6.85% (0.068531), these values indicate the ability of the independent variable to explain the dependent variable. The rest is explained by other variables outside the regression model in the study.

The F statistic test of regression models I and II resulted in prob values (F-Statistic) of 0.027833 and 0.033411 (<0.05), meaning that all independent variables simultaneously affected the dependent variable.

Hypotheses Test

Table 7. Model I Multiple Regression Analysis

Variable	Coefficient	t-Statistic	Prob.
C	-0.022937	-0.277064	0.7823
ROA	0.099372	2.478373	0.0147
DER	0.000807	0.024676	0.9804
CR	-0.014168	-0.575684	0.5660

Based on table 7,the model of equation I as follows:

$$RETURN = -0.023 + 0.100ROA_{it} + 0.001DER_{it} + 0.014CR_{it}$$

The level of confidence of 95% or (α) = 0.05, ROA variable has a positive coefficient and obtained t-count of 2.478373 is greater than t-table that is equal to 1.658697 with a significance level of 0.0147 (<0.05), this means that ROA has a significant positive effect on stock returns so that H1 is accepted.

The DER variable has a positive coefficient and obtained t-count of 0.024676 is smaller than t-table that is equal to 1.658697 with a significan-

ce level of 0.9804 (>0.05), this means DER has a statistically positive effect and has no significant effect on stock returns so that H2 is rejected.

The CR variable has a negative coefficient and obtained t-count of 0.575684 is smaller than t-table that is equal to 1,658697 with a significance level of 0.5660 (>0.05), this means CR has a statistically negatif effect and has no significant effect on stock returns so that H3 is rejected.

Table 8. Model II Moderated Regression

Variable	Coefficient	t-Statistic	Prob.
C	-0.013594	-0.162772	0.8710
ROA	7.643643	1.809143	0.0732
DER	0.390446	0.777459	0.4386
CR	-0.390446	-1.147025	0.2539
ROA*KURS	-0.000567	-1.785578	0.0770
DER*KURS	-2.750005	-0.768083	0.4441
CR*KURS	2.390005	1.106453	0.2710

Based on table 8, the model of equation II as follows:

$$RETURN = -0.014 + 7.644ROA_{it} + 0.390DER_{it} + 0.390CR_{it} - 0.001ROA_{it}KURS_{it} - 2.750DE_{it-}KURS_{it} + 2.390_{it}KURS_{it}$$

The level of confidence of 95% or (α) = 0.05, ROA variable constant 7.643643 which is greater than ROA*KURS -0.000567, so the exchange rate variable strengthens the effect of ROA on stock returns. The interaction between ROA and exchange rate has a probability of 0.0770 (>0.05), not significant with a negative regression coefficient. This means that the exchange rate is not able to moderate ROA with stock returns so H4 is rejected.

The DER variable constant 0.390446 which is greater than DER*KURS -2.750005, so the exchange rate variable strengthens the effect of DER on stock returns. The interaction between DER and exchange rate has a probability of 0.4441 (>0.05), not significant with a negative regression coefficient. This means that the exchange rate is not able to moderate DER with stock returns so H5 is rejected.

The CR variable constant -0.390446 smaller than CR*KURS 2.390005, so the exchange rate variable weakens the effect of CR on stock returns. The interaction between CR and exchange rate has a probability of 0.2710 (>0.05), not significant with a positive regression coefficient. This means that the exchange rate is not able to moderate CR with stock returns so H6 is rejected.

Hypothesis Testing Results

The Effect of Return on Assets (ROA) on Stock Returns

Based on the results of the t statistical test, it has been found that the fundamental factor measured by the ROA variable has a positive and significant effect on the company's stock returns in the LQ45 index for the 2015-2020 period. This shows that the effectiveness and efficiency in managing the company's assets to generate net income will increase the stock returns that investors receive. The results of this study are following research conducted by Arisandi (2014); Erzad & Erzad (2017); Santosa (2019) which states that ROA has a positive and significant effect on stock returns. The results of this study support the relevance of signalling theory which states that the market reacts to information.

The increase in the company's ROA ratio followed by the higher profit margin generated will increase the level of investor confidence. Investors in long-term investment consider companies with high profits to have efficient working capital management and good market performance. The level of stock demand is linearly proportional to the increase in the company's stock price. The increase in stock prices provides benefits because of the difference or capital gains received by investors.

The Effect of Debt to Equity Ratio (DER) on Stock Returns

Based on the results of the t statistical test, it has been found that the fundamental factor measured by the DER variable has a positive and not significant effect on the company's stock returns in the LQ45 index for the 2015-2020 period. This shows that the higher the amount of debt borne by the company has no effect on stock returns. The results of this study are following research conducted by Arisandi (2014) which states that DER does not have a positive and significant effect on stock returns. The use of debt that reduces cash flow does not affect the return in the form of dividends to shareholders (Yulianto et al., 2014).

Market capitalization of companies that tend to have more stable financial performance. The company's inability to pay off debt can be minimized by the assets owned, so that in this case investors do not see the importance of using debt because it does not affect their perception of future profits. The positive relationship between DER and stock returns shows that investors value companies with high debt proportions as additio-

nal funds to meet funding for growing companies.

The Effect of Current Ratio (CR) on Stock Returns

Based on the results of the t statistical test, it has been found that the fundamental factor measured by the CR variable has a negative and not significant effect on the company's stock returns in the LQ45 index for the 2015-2020 period. This shows that CR as a liquidity ratio cannot be used as a benchmark in obtaining maximum stock returns. The results of this study are following research conducted by Arisandi (2014) which states that CR does not have a negative and significant effect on stock returns.

Liquidity as a fundamental factor shows the company's ability to meet operational needs, especially working capital to maintain company performance. The company can be liquid if the company has the liquid assets which can be used to fulfill all its financial obligations (Khafid et al., 2019). The LQ45 index as a company with a high market capitalization tends to have asset reserves. In this case the company's inability to meet operational needs or short-term debt can be covered. Signalling theory states that companies with high levels of liquidity do not experience financial distress or conditions where companies experience financial difficulties cannot be interpreted for this variable.

Exchange Rate Strengthens the Effect of Return on Assets (ROA) on Stock Returns

Based on the results of the second model on the MRA test, the ROA variable constant is greater than the interaction variable constant between ROA and kurs. This shows that the exchange rate as a macroeconomics factor strengthens the effect of ROA on the company's stock returns in the LQ45 index for the 2015-2020 period. The results of this study are in accordance with research by Rasyad et al. (2020) and Sutriani (2014) where macroeconomic factors do not have a significant influence on the interaction of fundamental factors as measured by the ratio of profitability on stock returns.

The increase in the rupiah exchange rate allows companies to gain more from the appreciation of the currency. Appreciation that occurs will reduce production costs, especially imports of raw materials followed by lower interest rates. The decrease in production costs will have a positive impact, especially on the increase in company profits. Companies with high market capitalization tend to conduct international transactions, this will increase the company's profit margins. The company's profit as a positive signal will increase earnings per share.

Exchange Rate Strengthens the Effect of Debt to Equity Ratio (DER) on Stock Returns

Based on the results of the second model on the MRA test, the DER variable constant is greater than the interaction variable constant between DER and kurs. This shows that the exchange rate as a macroeconomics factor strengthens the effect of DER on the company's stock returns in the LQ45 index for the 2015-2020 period. The results of this study is in accordance with research by Sutriani (2014) who concludes that the exchange rate variable is not significant in moderating the effect of DER on stock returns.

The companies with high market capitalization tend to have foreign debt in foreign currency. Changes in the exchange rate as a macroeconomic factor are closely related to the prevailing price level of a good or service (Utama & Puryandani, 2020). Changes in exchange rate fluctuations affect the company's behavior on financing requests. In this case, changes in the exchange rate as a measure of macroeconomic policy reflect the balance of supply and demand in both domestic and foreign currencies.

Exchange Rate Weakens the Effect of Current Ratio (CR) on Stock Returns

Based on the results of the second model on the MRA test, the CR variable constant is smaller than the interaction variable constant between CR and kurs. This shows that the exchange rate as a macroeconomics factor weakens the effect of CR on the company's stock returns in the LQ45 index for the 2015-2020 period. The results of this study is in accordance with research by Rasyad et al. (2020) macroeconomic factors do not have a significant influence on the interaction of fundamental factors as measured by the liquidity ratio to stock returns.

The exchange rate as an external factor that affects price volatility is a systematic risk. Systematic risk is related to changes that occur in the market at large (Sunaryo, 2020). The depreciation of the domestic currency will increase the volume of exports in international trade which will increase the company's cash flow due to international market demand. The results of this study confirm that the exchange rate allows to moderate the relationship of fundamental factors to stock returns in accordance with the signaling theory which states that the market reacts to information as a signal.

CONCLUSIONS AND RECOMENDATION

This study was conducted to examine the effect of fundamental factors as measured by ROA, DER, CR on stock returns with exchange rate as a moderating variable. The test results found that the ROA variable has a significant positive effect while the DER and CR variables has not significant effect on stock returns. The MRA test proves that the exchange rate variable strengthens the effect of ROA and DER on stock returns. Whereas the exchange rate weakens the effect of CR on stock returns.

The limitation of this study is that the fundamental factors used have a less strong influence of 5.4% for the regression model I and 6.85% for the regression model II on stock returns. Suggestions for further research are expected to add other fundamental factors such as Price Book Value, Dividend Payout Ratio, and Price to Earning Ratio. It is important to know the role of the ability of the company's fundamental factors to influence stock returns

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