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The Role of Financial Performance in Moderating Capital Structure and Macroeconomic Uncertainty on Stock Returns
(Study on the Trade and Services Sector of the Indonesia Sharia Stock Index)

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Abstract. *This study aims to investigate the relationship between capital structure and macroeconomic uncertainty on stock returns moderated by financial performance in trade and service sector issuers in the context of the Islamic capital market. The Structural Equation Modeling (SEM) method was applied using IBM AMOS Version 22 software. A total of 27 issuers in the trade and services sector listed on the Indonesian Sharia Stock Index (ISSI) became the research sample, which was observed in the time span from 2017 to 2022. The results showed that capital structure has no significant effect on stock returns, while macroeconomic uncertainty has a significant effect on stock returns. In addition, financial performance has a positive effect on stock returns. However, financial performance does not moderate the effect of capital structure on stock returns, while moderating the effect of macroeconomic uncertainty on stock returns. These findings provide new insights in the understanding of the factors that affect stock returns with practical implications for investors and company management.*
Keywords: *Capital Structure, Macroeconomic Uncertainty, Financial Performance, Stock Return*

Abstrak. *Penelitian ini bertujuan untuk mengetahui hubungan antara struktur modal dan ketidakpastian ekonomi makro terhadap return saham yang dimoderasi oleh kinerja keuangan pada emiten sektor perdagangan dan jasa dalam konteks pasar modal syariah. Metode Structural Equation Modeling (SEM) diaplikasikan dengan menggunakan perangkat lunak IBM AMOS Versi 22. Sebanyak 27 emiten sektor perdagangan dan jasa yang terdaftar di Indeks Saham Syariah Indonesia (ISSI) menjadi sampel penelitian, yang diamati dalam rentang waktu 2017 hingga 2022. Hasil penelitian menunjukkan bahwa struktur modal tidak berpengaruh signifikan terhadap return saham, sedangkan ketidakpastian ekonomi makro berpengaruh signifikan terhadap return saham. Selain itu, kinerja keuangan berpengaruh positif terhadap return saham. Namun, kinerja keuangan tidak memoderasi pengaruh struktur modal terhadap return saham, sedangkan memoderasi pengaruh ketidakpastian ekonomi makro terhadap return saham. Temuan ini memberikan wawasan baru dalam pemahaman tentang faktor-faktor yang mempengaruhi return saham dengan implikasi praktis bagi investor dan manajemen perusahaan.*

Kata Kunci : *Struktur Modal, Ketidakpastian Ekonomi Makro, Kinerja Keuangan, Pengembalian Saham*[1]

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Introduction

Economic uncertainty is a significant challenge in the global economy, where companies and investors must be responsive to unexpected fluctuations such as interest rate changes, stock market turmoil, government policy changes, or sudden geopolitical events (Ullah et al., 2020). Under these conditions, investors often restructure their portfolios to manage risk, tending to seek safer investments (Chow et al., 2018). On the other hand, companies must manage a capital structure that includes funding through equity or debt, reflecting how they fund their operations and investments (Nashikh et al., 2022). The management of this capital structure is a complex task that must be adjusted to dynamic economic conditions (Widnyana et al., 2020)

Companies listed as sharia issuers in the Indonesia Sharia Stock Index (ISSI) face additional challenges to maintain alignment of funding policies with sharia principles. Misalignment with sharia principles not only harms business integrity but also lowers investor confidence, which negatively impacts the company's share price and reputation in the Islamic capital market (Nawindra & Wijayanto, 2020). Therefore, management in ISSI companies must ensure their financial decisions are aligned with Islamic ethics to maintain investor confidence and fulfill the rules of the Islamic capital market (Farihah et al., 2023; Garnia et al., 2021). This challenge makes the funding policies of Islamic companies more complex, as they must prioritize corporate interests while complying with Islamic ethical principles.

The comparison between equity capital and debt capital is the core of the company's capital structure, especially for issuers in the Indonesian Sharia Stock Index (ISSI) which must also comply with Islamic ethical principles (Rahayu et al., 2020). Capital structure policy affects the level of risk, performance, and value of the company which has an impact on stock returns (Chandra et al., 2019). The decision to use equity or debt capital involves a trade-off between risk and return, where excessive use of debt can increase the risk of bankruptcy due to fixed interest costs that reduce net income (Sharif, 2019; Sholichah et al., 2021). Macroeconomic uncertainties, such as economic fluctuations, inflation, interest rates, and exchange rates, add challenges to capital structure management due to their impact on firm performance and the overall stock market (Ihsan et al., 2023; Karyatun et al., 2021). The measurement of macroeconomic uncertainty remains difficult due to the complexity and rapid changes in the economic system (Chow et al., 2018).

In the context of macroeconomic uncertainty, the relationship between corporate capital structure and stock returns becomes more complex. When uncertainty increases, investors tend to seek safer investments, such as shares of companies with little debt (Bassar et al., 2021; Mukhtaruddin et al., 2019). Companies may adjust capital structure to reduce risk during periods of uncertainty because strong financial performance can provide greater flexibility in the face of market fluctuations (Adinegara et al., 2023; Hasanah et al., 2021; Siswanto et al., 2021). Financial performance indicators such as net profit ratio, profitability, revenue growth, and cash flow play an important role in assessing the company's ability to meet financial obligations and provide returns to shareholders (Larianti & Purbawangsa, 2019). With a deep understanding of the relationship between financial performance and capital structure risk management, companies can make better strategic decisions to achieve long-term goals (Chow et al., 2018).

Previous research shows that the Indonesian Sharia Stock Index (ISSI) is influenced by macroeconomic factors and company fundamentals simultaneously. Macroeconomic variables such as interest rates, exchange rates, and inflation have a negative impact on Islamic stock market performance (Garnia et al., 2021). In addition, macroeconomic uncertainty also affects the company's capital structure decisions, especially in companies with good governance that feel the negative impact of such uncertainty more (Chow et al., 2018).

Another study found that only profitability variables affect stock returns on the Kompas 100 index (Chandra et al., 2019). Shariah companies with high liquidity perform better than those with low liquidity, a difference not seen in non-shariah companies (Ho & Mohd-Raff, 2019). Macroeconomic factors also affect the ISSI in the long run, strengthening the understanding of the relationship between macroeconomic variables and the Islamic stock index (Nawindra & Wijayanto, 2020). Corporate decisions regarding capital structure have a significant impact on firm value, but do not necessarily affect profitability. Companies with strong financial performance can be more resilient to changes in capital structure when economic uncertainty increases (Karyatun et al., 2021). Previous research also shows the negative impact of imported manufactured products on firm financial performance (Baroroh & Karomati, 2018; Siswanto et al., 2021).

Researchers have identified the influence of capital structure and macroeconomic uncertainty on stock returns, but further research is needed to understand how financial performance moderates this relationship. The lack of research on ISSI indicates the need for an in-depth study of funding policies in the Islamic capital market, which is not only important to comply with sharia principles but also to maintain investor confidence and optimize stock returns. This study aims to explore the role of financial performance in moderating the relationship between capital structure and macroeconomic uncertainty on stock returns, in order to provide more insight into this mechanism in the context of Islamic capital markets.

Literature Review

Indonesia Shariah Stock Index

The Indonesia Sharia Stock Index (ISSI) is an index consisting of stocks of companies that adhere to sharia principles in their business, such as the prohibition against usury, speculation, and gambling, allowing Muslim investors to invest in accordance with Islamic religious beliefs (Fatwa DSN-MUI No.135, 2020; Indonesia Stock Exchange, 2023). Formed in response to market demand for sharia investments, the ISSI helps facilitate ethical and Islamic-compliant investments, thereby diversifying the Indonesian capital market and increasing investment options for investors concerned about sharia compliance (Lusyana & Sherif, 2017; Otoritas Jasa Keuangan, 2023). The ISSI also influences the trade and service sector industries, encouraging companies to ensure that their business operations comply with Islamic ethical requirements, which include usury-free transactions and speculative activities, as well as promoting fair and ethical business practices, which can enhance a company's reputation and long-term growth. The index is important because it provides adequate investment solutions for the Muslim community, ensuring that investments held do not violate Islamic religious principles, as well as encouraging broader financial inclusion by combining religious values with Islamic investment objectives (Mulyadi & Wibowo, 2023).

Signaling Theory

Brigham & Houston, (2019) explain how company management actions provide clues to investors about the company's prospects. Dividend announcements, for example, contain information that can predict company profits and expected stock returns, making them useful for investors in making investment decisions. This theory assumes that managers have accurate information about the value of the company that investors may not know and seek to maximize their profits. Dividend announcements not only provide signals about the company's prospects, but can also affect market valuations such as stock prices and stock returns. Subramanyam, (2014) adds that most earnings-related stock returns occur before the official announcement, suggesting that the stock market is often able to infer earnings news ahead of time. This accounting information usually serves as feedback that confirms prior market beliefs. After the earnings announcement, stock returns are still related to the news, indicating a phenomenon called post-earnings announcement. Subramayam also mentions several motivations for managers to disclose information before the official announcement, including legal liability, expectation adjustment, and signaling to increase stock prices. Managers often disclose good news to manage market expectations and ensure they can regularly beat market expectations.

Operational Research Variables

Stock Return

In this case, stock returns are calculated as the difference between the current stock price and the stock price at purchase, or as a percentage change between the current stock price and the previous stock price (Brigham & Houston, 2019).

$$\text{Stock Return} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Description:

P_t = Stock price in period t

P_{t-1} = Share price in period t-1 or earlier

Financial performance

Return On Asset (ROA)

The ROA ratio is calculated by dividing the company's net profit by the total assets owned by the company (Brigham & Houston, 2019). The ROA calculation formula is as follows:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Current Ratio (CR)

CR is calculated by dividing the company's total current assets by total short-term liabilities or debt that must be repaid immediately (Brigham & Houston, 2019). The CR calculation formula is as follows:

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Payables}}$$

ROE is a financial ratio that measures the rate of return earned by company owners from their investment in the form of equity or own capital. ROE calculation is done by dividing the net profit earned by the company in a certain period by the total equity or owner’s capital at that time. The following is the formula for calculating ROE (Brigham & Houston, 2019):

$$\boxed{\text{ROE} = \frac{\text{Net Profit}}{\text{Equity}}}$$

Capital Structure

Debt to Equity Ratio (DER)

DER calculation is done by dividing the total debt owned by the company with the company's total equity or own capital in a certain period (Brigham & Houston, 2019). The DER calculation formula is as follows:

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

Debt Ratio calculation is done by dividing the total debt owned by the company with its total assets in a certain period (Brigham & Houston, 2019). The Debt Ratio calculation formula is as follows:

$$\boxed{\text{Debt Ratio} = \frac{\text{Debt}}{\text{Assets}}}$$

Long Term Debt to Equity Ratio (LTDER)

LTDER is calculated by dividing total long-term debt by total equity (Brigham & Houston, 2019). Long-term debt includes debt with a maturity of more than one year, such as long-term bank loans or bonds, while equity includes shareholders' equity and non-debt reserves. The following is the LTDER calculation formula:

$$\boxed{\text{LTDER} = \frac{\text{Long}-\text{term Debt}}{\text{Equity}}}$$

Macroeconomics

The central bank interest rate is measured using the risk-free interest rate published by Bank Indonesia. The exchange rate, which is defined as the comparison of monetary units between two countries (Brigham & Houston, 2019), in Indonesia is often compared between the Rupiah (IDR) and the United States Dollar (USD), with the exchange rate variable calculated in units of USD against IDR. Inflation, which is a decline in the purchasing power of a country's currency due to a general increase in commodity prices (Brigham & Houston, 2019), is measured based on official data from the Central Bureau of Statistics.

Research Framework Model

This study will detail and describe the main components that will be analyzed and tested in order to understand how financial performance can moderate the relationship between capital structure, macroeconomic uncertainty, and stock returns.

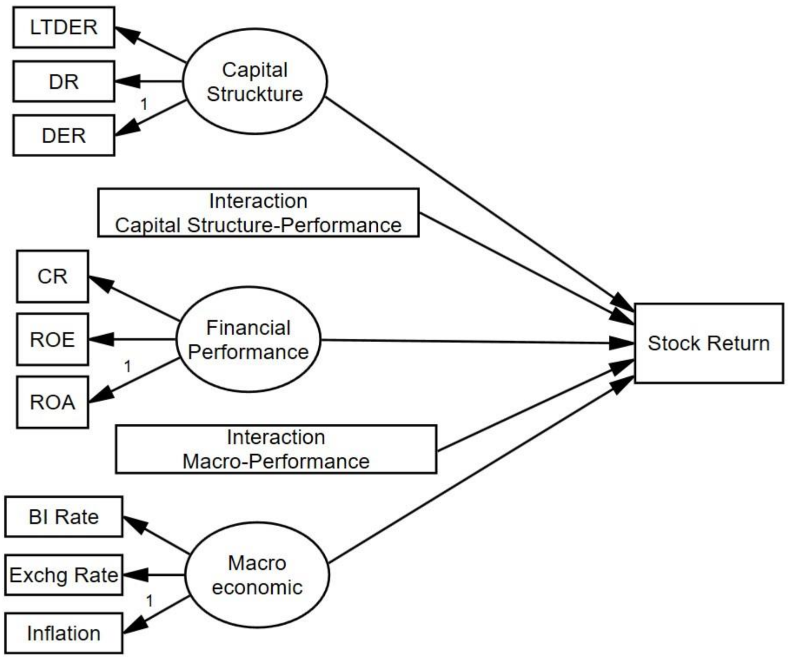

Figure 1: Research framework model

The hypothesis in this study is as follows:

H1: Capital structure affects Islamic stock returns

H2: Macroeconomic uncertainty affects Islamic stock returns

H3: Financial performance affects Islamic stock returns

H4: Financial performance moderates the effect of capital structure on stock returns

H5: Financial performance moderates the effect of macroeconomic uncertainty on stock returns.

Method

This research is a type of quantitative research that uses secondary data that is tested, and aims to test existing hypotheses or theories. The results of these tests are used to confirm or reject the hypotheses proposed in the study. The population used in this study consists of a panel data set that includes companies operating in the trade and service sectors that have become part of the Indonesian Sharia Stock Index (ISSI) constituents during the period 2017 to 2022. Sampling is done by purposive sampling method, where the sample is selected intentionally based on certain criteria. The data used in this study are secondary data obtained from various sources. For data on the company's financial performance and capital structure, data is taken from the financial statements of companies listed on the Indonesia Stock Exchange (IDX). Meanwhile, data on macroeconomic indicators are obtained from official sources such as Bank Indonesia and the Central Bureau of Statistics.

Results and Discussion

Sample Eligibility Test

Testing using the maximum likelihood estimation technique requires a sample of more than 100 data, to be tested properly. In this study, the sample consists of 27 trade and service issuers observed for 6 years, from 2017 to 2022, resulting in a total of 162 data. The number of samples and data obtained has met the standard criteria needed to conduct testing using the maximum likelihood estimation technique effectively and reliably.

Outlier Test

The Mohalanobis distance values observed in this context are measured based on the p1 and p2 values. If the p1 and p2 values show statistical significance above the 0.05 threshold, then this indicates that the data in the study does not contain significant outliers. In the first test with a sample of 162 data, the test results show that there are outliers. Therefore, action needs to be taken to address this issue. In this case, 6 outlier data were found and needed to be eliminated. In the second test with the sample being 156 data, the test results show that the data has reached an acceptable level, there are no longer any outlier data.

Confirmatory Factor Analysis (CFA) Test

CFA is used to test the ability of the indicators used in the criteria for valid loading value> 0.6 on each indicator (Ghozali, 2017). By analyzing the CFA results table, researchers can evaluate the extent to which the proposed model matches the existing empirical data. Based on the test results in table 1, it can be concluded that all indicators of the research variables have met the specified construct criteria. This indicates that these indicators significantly represent the concept or phenomenon to be measured in the study.

Table 1. CFA Test Results

Variables	Loading Factor Value	Description
DER	.623	Used
DR	.905	Used
LTDER	.738	Used
ROA	.670	Used
CR	.620	Used
ROE	.995	Used
BI_Rate	.703	Used
Ntukar	.721	Used
Inflasi	.918	Used

Source: Data results processed using AMOS

Structural Model Test

In this analysis, testing the feasibility of the structural model is the main focus to evaluate the suitability of the model with the previously established goodness of fit criteria.

Table 2. Goodness of Fit Index results on the structural model

Goodness of Fit Index	Cut off Value	Results	Description
X^2 (Chi-Square)	Expectedly Small	74,87	Df=25, Good fit
Significancy Probability	≥0,05	0,81	Good fit
RMSEA	≤0,08	0,07	Good fit
GFI	≥0,90	0,93	Good fit
AGFI	≥0,90	0,95	Good fit
CMIN/DF	≤2,00	1,78	Good fit
TLI	≥0,90	0,95	Good fit
CFI	≥0,90	0,97	Good fit

Source: Data results processed

Direct Test Results

Tabel 3. Regression Weights

			Estimate	S.E.	C.R.	P	Result
Return	<---	Structure	.023	.071	.324	.426	Not Significant
Return	<---	Macro	.283	.037	2.257	.024	Significant
Return	<---	Performance	.445	.124	2.170	.042	Significant

Source: Data results processed

Capital Structure Has No Effect on Stock Returns

Based on the test results that have been carried out can be seen in table 4.15, the effect of capital structure on stock returns with a C.R value of 0.324 and a probability value (P) of 0.426 > 0.05. In accordance with the predetermined criteria if the C.R value < 1.96 and significance α > 0.05 then reject H1 because the capital structure has no effect on stock returns. The findings of this study indicate that capital structure in trade and service issuers in ISSI does not affect stock returns. This is consistent with previous research by Chandra et al. (2019) and Widnyana et al. (2020), who found that the debt ratio in the capital structure has no significant effect on stock returns. Other factors such as financial performance, growth prospects, dividend policy, and sharia compliance tend to influence investor decisions more.

This finding also contradicts research by Sharif (2019), who found that capital structure is negatively related to stock returns. This indicates that in the context of Islamic capital markets, capital structure policies do not provide significant signals to investors regarding the company's business performance or prospects. According to signaling theory, the use of debt should provide positive signals to investors, but in practice, investors may be more influenced by market sentiment, future expectations, and the company's historical performance than an in-depth analysis of the capital structure (Hasanah et al., 2021).

Macroeconomic uncertainty affects stock returns

Based on the test results, macroeconomic uncertainty has a significant effect on stock returns, with a C.R value of 2.257 and a probability (P) of 0.02 <0.05. In accordance with the criteria that have been set if the value of C.R> 1.96 and significance $\alpha < 0.05$ then accept H2. With an estimate value of 0.283, this indicates that an increase in macroeconomic uncertainty by 1 will increase stock returns by 0.283. This finding indicates that economic fluctuations and uncertainty can trigger an increase in the volatility of shares of trade and service issuers in ISSI, which in turn affects the return on investment in Islamic stocks. This result is consistent with the research of Widyantoro et al. (2023) and Bassar et al. (2021), which show that macroeconomic factors affect stock volatility and performance, mainly through fluctuations in interest rates and exchange rates.

The belief that Islamic issuers are more resilient to macroeconomic shocks, as expressed by Karyatun et al. (2021) and Siswanto et al. (2021), is not proven for ISSI trade and services sector issuers. Business characteristics and dependence on external factors make this sector more vulnerable to macroeconomic fluctuations. Economic uncertainty affects consumer demand, business spending, and capital availability, which has a direct impact on financial performance and stock prices. In contrast, consumer goods and manufacturing industry issuers show more stability due to consistent demand and fixed consumption patterns. Under conditions of uncertainty, investors are more cautious and may lower their expectations of the trade and services sector, resulting in lower share prices and increased volatility. This suggests that ISSI trade and services issuers face greater pressure due to sensitivity to unstable macroeconomic conditions.

Financial performance affects stock returns

Based on the test results, financial performance has a significant effect on stock returns with a C.R value of 2.170 and a probability (P) of 0.04 <0.05. In accordance with the predetermined criteria if the C.R value < 1.96 and significance $\alpha < 0.05$ then accept H3. With an estimate value of 0.445, it shows that an increase in financial performance by 1 will increase stock returns by 0.445. This indicates a strong positive relationship between financial performance and stock returns, where an increase in the issuer's financial performance will be followed by an increase in stock returns. This finding is in line with previous research by Akbar & Afiezan (2018), which states that financial performance is a fundamental factor affecting Islamic stock returns.

This study also confirms the results of Siswanto et al. (2021) and Adinegara et al. (2023), which show that strong financial performance is a key indicator of the stable foundation and growth potential of an issuer. Investors tend to choose stocks from issuers with good financial performance, as they have more confidence in the stability and long-term growth prospects of these issuers. Good financial performance also allows companies to pay dividends consistently, which attracts investors looking for stable income, thereby increasing demand and share prices. In addition, issuers with solid financial performance tend to have a lower level of risk, which is attractive to investors seeking safe and stable investments.

Test Results With Moderation Variables

Tabel 4. Moderating Effect

		Estimate	S.E.	C.R.	P	Result
Return <---	Interaction_ Capital Structure_ Performance	.014	.049	.284	.367	Not moderating
Return <---	Interaction_ Macro_Performance	.502	.041	2.040	.003	Moderating

Source: Data results processed

Financial performance does not moderate the effect of capital structure on stock return.

Based on the test results that have been conducted can be seen in Table 4, the interaction effect of capital structure and financial performance on stock returns with a C.R value of 0.284 and a probability value (P) of 0.367 > 0.05. In accordance with the predetermined criteria if the value of C.R < 1.96 and significance α > 0.05 then reject H4 because financial performance does not moderate the effect of capital structure on stock returns. The results of this study indicate that financial performance and capital structure are influenced by different factors, so financial performance is not always directly related to the company's decision on capital structure.

Research by Jariah et al. (2022) also found that financial performance does not moderate the relationship between financial decisions and stock returns, confirming that financial performance has no significant effect in moderating the relationship between these variables. However, research by Suhadak et al. (2019) found that financial performance moderates the relationship between Good Corporate Governance (GCG) and firm value, which affects stock returns. This suggests that the moderating effect of financial performance may vary depending on the context and specific factors considered, highlighting the importance of considering other factors that may influence the relationship between financial performance, capital structure and stock returns.

Financial performance moderates the effect of macroeconomic uncertainty on stock returns.

Based on the test results that have been carried out, it can be seen in table 4, the effect of macroeconomic interaction and financial performance on stock returns with a C.R value of 2.040 and a probability value (P) of 0.03 <0.05. In accordance with the predetermined criteria if the value of C.R> 1.96 and significance α < 0.05 then accept H5, namely financial performance moderates the effect of macroeconomic uncertainty on stock returns. This finding indicates that strong financial performance can be an indicator that the company is able to manage risk and continue to perform well despite economic uncertainty.

This research is a new contribution to the literature, as it is the first time to explore financial performance as a moderating variable on the effect of macroeconomic uncertainty on stock returns of trade and service sector issuers in ISSI. Previous studies have shown that macroeconomic factors affect stock returns, which are also moderated by other variables, such as income per capita (Kartikaningsih et al., 2023), the impact of the Covid-19 pandemic (Ihsan et al., 2023), and Financial Technology (Aruan et al., 2022) . In this context, companies with strong financial performance are better able to survive and thrive in uncertain economic situations, increasing investor confidence and demand for their shares. In addition, good financial performance provides financial flexibility to make strategic investments or change capital structure, helping firms better respond to changes in macroeconomic conditions. Thus, financial performance can serve as a barrier or reinforcing mechanism to the impact of macroeconomic uncertainty on stock returns, depending on firm-specific conditions and strategies.

Conclusion

This study reveals that financial performance plays an important role in moderating the impact of macroeconomic uncertainty on stock returns in trade and service sector issuers in the Indonesian Sharia Stock Index (ISSI), indicating that companies with solid financial performance are better able to survive and attract investor interest in uncertain economic situations. For companies, it is recommended to focus on strengthening financial performance through effective risk management and transparency of financial statements. Investors should consider the company's financial performance in making investment decisions and diversifying their portfolios. Further researchers should explore other variables that may moderate this relationship, while regulators should support the implementation of robust and transparent financial practices and educate investors on the importance of financial performance in determining stock returns.

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