Stock Returns of Nepalese Commercial Banks: The Role of Size, Book Yield and Earnings Yield

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Abstract

Purpose – This study investigates the factors influencing common stock returns of commercial banks in Nepal's emerging capital market, specifically analyzing the impacts of bank size (SIZE), book-to-market equity (B/P), and earnings yield (E/P). Empirical study revealed that these factors are directly associated with and influence on common stock returns.

Design/methodology/approach – The research adopts a quantitative approach, employing both explanatory and descriptive research design. It analyzes annual data from 19 commercial banks in Nepal over a ten-year period, from 2015 to 2024. Secondary data is collected from the financial statements of concerned banks and their records at the Nepal Stock Exchange (NEPSE). SPSS-26 is employed to perform correlation and regression analyses to examine the relationships between stock returns and key financial variables, including bank size, book yield and earnings yield.

Findings – The research shows a positive correlation between SIZE and E/P, while the B/P ratio shows a negative correlation with stock returns of common stocks. The regression analysis reveals that SIZE positively predicts stock returns, and B/P negatively impacts stock returns. However, E/P does not exhibit any ability to predict stock return.

Conclusion – The research concludes that larger banks tend to offer higher returns for investors. Nepalese investors consider SIZE and B/P ratio when predicting stock returns. However, investors do not prioritize on bank earnings in their investment decisions.

Implications – This study advances the understanding of how E/P, SIZE, and the B/P ratio influence stock returns in Nepalese commercial banks, providing valuable insights for investors and researchers including theoretical implication.

Originality/value – The research is original and it emphasizes on all commercial banks listed in NEPSE, analyzing annual dataset covering a decade. This study offers practical implications for portfolio approaches in the context of emerging stock markets.

Keywords – Bank size, Book to market equity, Earnings yield, Stock returns

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1. Introduction

The Nepalese stock market is an emerging equity market in South Asia. The Nepal Stock Exchange (NEPSE) is only secondary market in Nepal. It is highly sensitive and volatile, offering high returns opportunities for sharp investors. The prediction of stock returns has captured remarkable interest among scholars, professionals, and practitioners in the stock market. The risk associated with investing in a specific asset group has consistently been a primary concern for investors. Markowitz (1952) was the first to establish a precise measure of portfolio risk, enabling the calculation of both expected return and risk. Early theories identified standard deviation as a key indicator of return volatility, with higher standard deviation signifying greater risk. The Markowitz model formulates the efficient frontier, representing optimal portfolio choices for investors. Tobin (1952) proposed a method for selecting the most relevant portfolios from this efficient set. Markowitz's (1952) mean-variance analysis and the SLB model by Sharpe (1964), Lintner (1965), and Black (1972) establish a positive link between expected returns and systematic risk, measured by beta. However, rising criticism of the Capital Asset Pricing Model (CAPM) has led to increasing scrutiny of capital market theory. Empirical studies, including Ross (1976), Fama (1991), Chan et al. (1991), and Fama and French (1992), identify additional factors such as cash flow yield, leverage, book-to-market equity, and firm size as key drivers of stock returns. Banz (1981) further challenges the SLB model by demonstrating the size effect, where market equity (ME) improves beta's predictive power. These findings suggest that relying solely on beta may not fully explain stock return variations, highlighting the need for alternative asset pricing models

Empirical evidence suggests that small stocks with low market equity yield higher average returns than predicted by beta, whereas large stocks tend to underperform. Extensive research has documented size and earnings yield effects, examining their relationship (Nicholson, 1960; Basu, 1977, 1983; Ball, 1978; Banz & Breen, 1986; Ritter & Chopra, 1989). Although these studies primarily focus on developed capital markets, their relevance extends to smaller, emerging markets like Nepal, where similar effects have been observed despite limited research (Poudel, 2024).

Currently the rise in awareness of the importance of saving and investment has increased the number of investors in Nepalese stock market, and the behavior of investors affect the volatility in stock prices (Giri & Adhikari, 2023); however, despite the increasing interest in Nepalese stock market, there is limited empirical evidence on how fundamental factors such as bank size, book to market ratio, and earnings yield impacted on common stock returns. Therefore, this study aims to examine the determinants affecting common stock returns in Nepal's emerging capital market. Specifically, it investigates the impact of bank size, book to market equity, and earnings yield on common stock returns. The research also provides an overview of the key issues explored throughout the study.

2. Literature Review and Hypotheses Development

Theoretical Foundation

The Efficient Market Hypothesis (EMH) asserts all investors act rationally and that security prices fully reflect all available information, thereby preventing abnormal returns (Fama, 1970). Further, Shah et al. (2019) and Chaudhary et al. (2025) elaborated that under the EMH, investors can only ensure stock return that corresponded to the level of perceived risk. The hypothesis assumes that all investors behave rationally and classifies market efficiency into three levels. The weak form of the Efficient Market Hypothesis (EMH) asserts that stock prices already incorporate past price data, making technical analysis ineffective. This supports the random walk hypothesis, which

suggests stock prices follow a random pattern. In the semi-strong form, prices quickly adjust to public information, making fundamental analysis unable to generate excess returns. Similarly, in the strong form of market efficiency, security prices incorporate all information, both public and private. That means insider information does not yield additional returns.

Market anomalies, or unexpected outcomes that contradict the Efficient Market Hypothesis (EMH), have led scholars to question its validity and develop theories to explain these anomalies (Sharma et al, 2024; Woo et al., 2020). Dimson and Mussavian (1998) note that while empirical research supports EMH, showing the difficulty of outperforming the market, profitable investment opportunities are still considered "anomalies," reflecting the challenges EMH faces from market irregularities like value and size effects. Safeer and Kevin (2014) noted that numerous studies have examined various anomalies, or deviations from normal stock returns, which scholars categorize into three main types: a) calendar anomalies, b) fundamental anomalies, and c) technical anomalies. Calendar anomalies occur when stock performance deviates based on time periods like, January effect, weekend effect, and turn of week impact. These anomalies may result from factors like investor behavior, tax treatments, cash flow adjustments, and slow information dissemination. Fundamental anomalies arise when stock prices fail to accurately predict their fundamentals or intrinsic values. These include the low stock price-to-sales ratio, price-to-earnings ratio, dividend yield, overreaction, and value versus growth anomalies. Value stocks tend to outperform growth stocks because of market overreaction, whereas growth stocks are more vulnerable during market declines. Furthermore, empirical study shows that stock with high dividend yields generally outperform the market (Fuller & Goldstein, 2011). Basu (1977) observed that stock with low price-to-earnings ratio offer better stock return from the overall market. Technical anomalies are grounded in historical stock prices and trends. They encompass the momentum effect, where investors may achieve market outperformance by buying recent winners and selling recent losers. In technical analysis, tactics such as moving averages, trading breaks, and the identification of support and resistance levels guide buy and sell decisions. This research is based on the fundamental anomalies to test, whether fundamental variables predicted stock returns of commercial banks in Nepal.

Firm size (Banz, 1981), earnings-price ratio (Basu, 1977), and other related anomalies have posed challenges for researchers in finance. Despite various studies, separating these effects remains difficult. Basu (1983) analyzed the size and earnings-to-price (E/P) effects together and identified that the E/P effect disappears when size is considered. Cook and Rozeff (1984) examined the relationship between size and earning E/P ratio and identified a significant correlation between the two variables. In contrast, Banz and Breen (1986) tested the impact between market value and E/P ratio, only market value effect found efficient.

Jaffe et al. (1989) examined the effects of size and earnings to price (E/P) ratio on stock returns using data from 1951 to 1986, indicating that the relationship between size, E/P, and stock returns could differ depending on the time period and data considered. The findings are supported the result of Cook and Rozeff (1984) however, differed from those of Banz and Breen (1986), and Basu (1983). Stattman (1980) and Rosenberg et al. (1985) investigated the association between book to market equity and its average stock return, discovering a positive correlation between the variables.

In the case of Nepal, few studies have been conducted to examine the relationship between fundamental variables and stock returns. As a result, sufficient literatures of fundamental anomalies are not available in specific sector of NEPSE. Poudel (2024) examined the impact of firm size, book to market equity, earning yield and cash flow yield on stock returns of the Nepalese stock market. The study found firm size and earning yield have significant positive impact on stock return whereas book to market ratio has significant negative impact, however,

the cash flow yield has no significant impact on common stock returns in Nepalese capital market. Dangol and Acharya (2020) observed that in Nepalese commercial banks size and book-to-market equity negatively correlated with stock returns, while earnings yield and cash flow yield had a positive impact. Pradhan and Balampaki (2004) observed that stocks with higher price-to-earnings (P/E) ratios had lower liquidity, profitability, asset turnover, and interest coverage but higher leverage. Additionally, a report suggests an inverse association between market equity and size dividend yield.

Empirical Review

Particularly in the US and Japan, the cross-sectional association between fundamental factors and stock returns has been extensively researched, with mixed results. Chan et al. (1991) analyzed the effects of earnings yield, size, book-to-market ratio, and cash flow yield on stock returns in Japan, finding that cash flow yield and book-to-market ratio had the most significant positive influence on predicted returns. Research has shown a positive association between equity returns and earnings yield, cash flow yield, and the book-to-market ratio, whereas a negative relationship exists between returns and company size (Basu, 1977, 1983; Banz, 1981; Ritter & Chopra, 1989). Ball (1978), Fama and French (1988), and Fama (1991) explored the impact of factors such as earnings yield and book-to-market ratio on forecasting stock returns, highlighting their effectiveness. They also found that yield proxies like earnings yield and dividend yield are positively associated with returns, serving as indicators of risk not captured by traditional measures like beta.

Earnings Yield and Stock Returns

Jaffe et al. (1989) found a significant relationship between earnings-price (E/P) and size from 1951 to 1986, aligning with Cook and Rozeff (1984) but contradicting Banz and Breen (1981), Basu (1977), and Reinganum (1981). Their study also noted seasonal differences, with both earnings yield and size coefficients being significant in January, while only earnings yield remained significant in other months. Similarly, Dangol and Acharya (2020) reported a negative correlation between firm size and book-to-market equity with stock returns whereas earnings yield and cash flow yield showed a positive relationship

Hypothesis (H1): Earnings yield significantly impacts on stock returns.

Size and Stock Returns

Cook and Rozeff (1984) tested the association between size and earning E/P ratio and documented a significant negative relationship. Pradhan and Balampaki (2004) found that size and earnings yield positively influence total yield, while cash flow yield and the book-to-market equity ratio have a negative effect. It has been proven that book to market value provides more useful information than other factors. But Dangol and Acharya (2020) reported a negative correlation between firm size and book-to-market equity with stock returns and firm size has a negative significant predicting power on stock returns.

Hypothesis (H2): Bank size significantly impacts on stock returns.

Book to Market Equity and Stock Returns

Rosenberg et al. (1985) found a significant positive relation between stock returns and the book-to-market ratio, book-to market equity has positively impact to the stock return, indicating that higher book-to-market equity is associated with higher stock returns. Gautam (2017) reported a positive relationship between stock returns and leverage, market capitalization, dividend payout, and dividend yield, while book-to-market ratio, asset growth, and earnings-to-price ratio

showed an inverse correlation. Similarly, Mukherji et al. (1997) identified positive correlations between stock returns and book-to-market equity, firm's sales- stock price, and debt-to-equity ratios, while beta and firm size showed no significant relationship.

Hypothesis (H3): Book to market equity significantly impacts on stock returns

Figure 1

Conceptual Framework
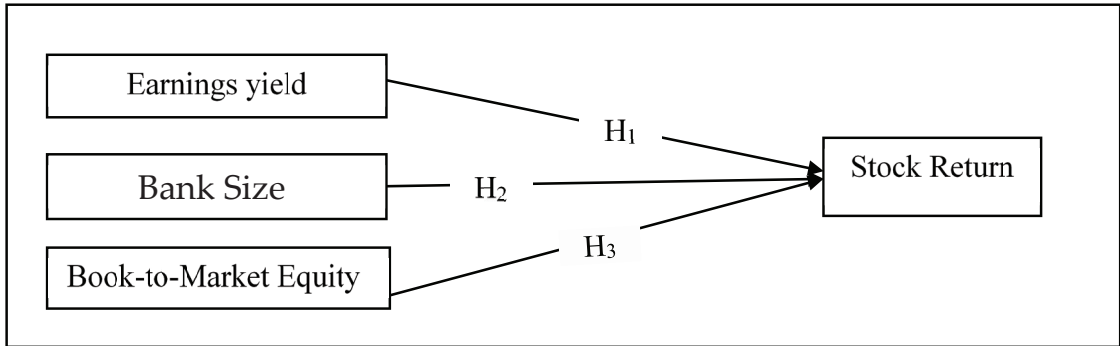
      (Source: Chan et al., 1991)

The dependent variable is stock return, also referred to interchangeably as total return or yield and independent variables include earnings yield, bank size, and book to market equity ratio. Stock return is the sum of annual capital gain yield (CGY) and dividend yield (DY). Dividend yield is computed by dividing total dividends per share (DPS) by initial market price per share of common stock. CGY is computed by dividing the annual change in the stock's market price by its initial market price of common stock as:

Stock Return (R or TY)=Capital gain yield+Dividend Yield

Capital Gain Yield (CGY)= $\dfrac{P_1 - P_0}{P_0}$

Dividend Yield (DY)= $\dfrac{D_1}{P_0}$

Bank size is measured using the natural logarithm of market capitalization. It is calculated as the product of the current share price per share and outstanding shares (Chan et al., 1991). The book yield is computed by dividing the book value or net worth of equity of common stock by its market value per share (Chan et al., 1991). The book value refers to banks total assets minus obligations, and the market value reflects the current stock price of common stock. Earnings yield is determined by dividing a company's earnings per share (EPS) by its current market price and expressed in percentage (Chan et al., 1991; Dangol, 2020; Pradhan & Balampaki, 2004).

3. Methods

This study uses pooled cross-sectional secondary data and employs descriptive and explanatory research designs to examine the determinants influencing stock returns of commercial banks in Nepal. A deductive approach is applied to test the theory and address research gaps. Data were gathered from the published annual audited financial report of commercial banks over a

10-year period, from 2014/15 to 2023/24. With 19 commercial banks listed on NEPSE, the entire population was included in the study, making the population size equal to the sample size and total 190 observations of data were initially considered for the analysis. Data are analyzed using Excel and SPSS-26 software. Descriptive analysis, Pearson's correlation, and regression analysis are used to analyze the data.

Measurement Models

The proposed econometric model assesses the relationship between stock returns (R) with the earnings yield (E/P), bank size (Ln_SIZE), and book to market equity (B/P) ratio. This theoretical framework has been explored in previous studies by Dangol and Acharya (2020), Karki (2018), Pradhan and Balampaki (2004), and Chan et al. (1991).

$$R=f(E/P,Ln\_SIZE,B/P) \qquad (i)$$

The standard purposed equation has been defined as follows:

$$R=a+b_1(E/P)+b_2(Ln\_SIZE)+b_3(B/P)+U_j \qquad (ii)$$

4. Results

Descriptive Statistics

Descriptive statistics and characteristics of the collected data for both the dependent and independent variables has been exhibited in Table 1. The table includes the mean, maximum, minimum, and standard deviation values of all variables considered in the study. Stock return serves as the dependent variable, while earning yield, firm size, and book to market equity function as the predictor variables. Outlier detection and exclusion were performed using SPSS by analyzing studentized deleted residuals and Cook's distance values. In accordance to the rules of thumb, the regression analysis includes only observations with Cook's distance below 1 and studentized deleted residuals within the range of ±3 (Field, 2024).

Table 1

Analysis of Descriptive Statistics of Variables

Variables		Minimum	Maximum	Mean	Std. Deviation
D/P0	%	0	9.78	3.1504	2.18917
CGY	%	-67.1	119	-3.8745	38.90988
Yield	%	-66.34	128.5	-0.724	39.96391
SIZE (in million)	Rs.	9361.974	188146.1	43994.24	27910.54
B/P	Times	0.07	1.12	0.4781	0.23806
E/P	%	0.01	18.25	5.5996	2.44926

Valid N (listwise)   190

The minimum dividend yield is zero, indicating that some commercial banks did not distribute dividends during the observation period. In contrast, the maximum dividend yield is 9.78%, with an average yield of 3.1504%, and standard deviation of 2.18917%. It suggests a significant variation in the dividend distribution patterns among commercial banks over the study period.

The average capital gain return is –3.8745%, with a standard deviation of 38.9099%. The capital gain fluctuates between a minimum of –67.1% and a maximum of 119%, indicating significant

price volatility in commercial banks during the study period. This high market fluctuation presents opportunities for smart investors to capitalize on price swings and generate profits. The total stock return varies between -66.34 percent to 128.50 percent with average of -0.724 percent. The standard deviation of return is 39.96 percent.

The average market capitalization of the banks is Rs. 4,399.24 million, with a minimum of Rs. 9,361.97 million, maximum of Rs. 188,146.10 million, and SD of Rs. 27,910.54 million. It indicates significant variability in the total market capitalization of commercial banks during the study period. The average B/P ratio is 0.4781, with a minimum of 0.07, a maximum of 1.12, and a SD 0.2381 times. This indicates that the B/P ratio fluctuated significantly due to high volatility in common stock prices. The average earnings yield is 5.65996%, with a minimum of 0.01% and a maximum of 18.25%. The negligible EPS of Kumari Bank and Prabhu Bank Limited during 2022/23 to 2023/24 contributed to their lower earnings yield. The characteristics of descriptive statistics indicate that dividends play a minimum role in stock returns, while stock price movements are the major factors influencing total stock returns.

Normality Test

The normality assumption is essential for the data validation and should be fulfilled before conducting correlation and regression analysis in parametric statistics. Normality was confirmed by testing the Studentized Deleted Residuals range from -3 to 3 (Field, 2024), Cook's Distance below the threshold of 1 (Cook & Weisberg, 1982), The Centered Leverage Value should not exceed by 2(k+1)/n (Tabachnick & Fidell, 2019). Additionally, for the regression model, the normality was confirmed through the histogram, normal P-P plot, and a scatterplot.

Table 2

Residuals Statistics

	Minimum	Maximum	Mean	Std. Deviation	N
Stud. Deleted Residual	-2.177	2.995	0.002	1.008	189
Cook's Distance	0	0.062	0.005	0.008	189
Centered Leverage Value	0	0.177	0.016	0.019	189

Dependent Variable: Yield

Table 2 exhibits the residuals statistics, which help detect outliers in the regression analysis. The Studentized Deleted Residuals range from -2.177 to 2.995, with a mean value of 0.002 and a standard deviation value of 1.008. As per the -3 to 3 rule (Field, 2024), no values exceed this range, indicating no significant outliers. Cook's Distance ranges from 0.000 to 0.062 (M = 0.005, SD = 0.008). Since all values are well below the threshold of 1 (Cook & Weisberg, 1982), no observation unduly influences the regression model. The Centered Leverage Value varied from 0.000 to 0.177, with a mean of 0.016 and a standard deviation of 0.019. Since values exceeding 0.042 are concerning and these values remain well within acceptable limits (Tabachnick & Fidell, 2019), there are no problematic leverage points. Overall, the diagnostics indicate that neither significant outliers nor leverage issues are affecting the model.

Figure 2

Normality Test
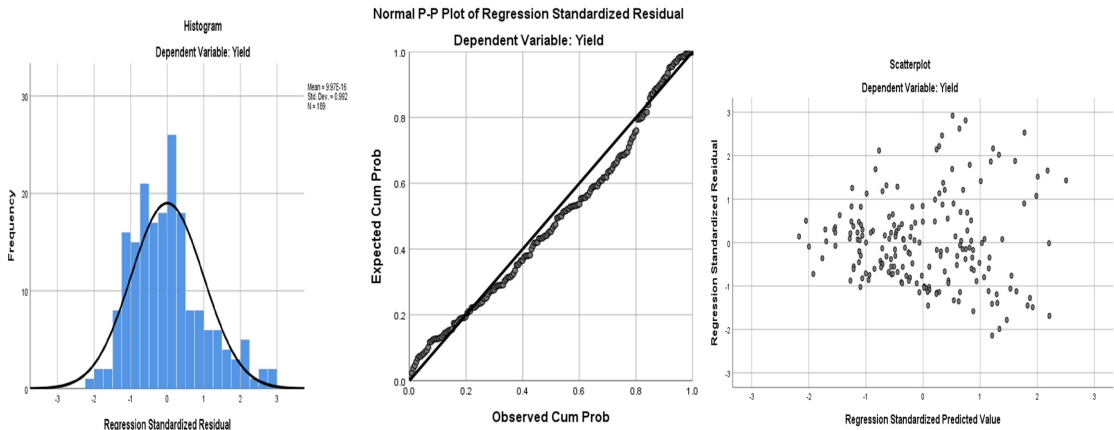
The normality of the regression model was assessed through a histogram of standardized residuals, a normal P-P plot, and a scatterplot comparing standardized residuals with predicted values. The histogram showed an approximately normal residual distribution, symmetrically centered around zero, with a mean of M = 9.97E-16 and a standard deviation of SD = 0.992.

The P-P plot confirmed a normal distribution as points aligned with the diagonal line, showing minimal deviation (Field, 2018). The scatterplot of standardized residuals versus predicted values indicated homoscedasticity due to the absence of patterns (Tabachnick & Fidell, 2019). These results support the normality assumption, justifying the use of a parametric statistical model.

Correlation Analysis

Table 3 presents the correlation analysis between stock returns and fundamental factors. It examines the association between CGY, DY, Total Yield, Ln_SIZE, B/P), and EY.

Table 3

Correlations Coefficients

	Yield	Ln_SIZE	B/P	E/P
Yield	1			
Ln_SIZE	.220**	1		
B/P	-.276**	-.251**	1	
E/P	-.181*	-.363**	.507**	1

** r < 0.01, * r < 0.05

The Table 3 exhibits a significant positive association between stock return and bank size, r = .22, p = .002, at the 0.01 significance level. This finding indicates that larger bank size is supported with higher stock return, indicating that as banks grow in size, they tend to generate greater returns. It reflects better financial stability increased investor confidence in larger banks

Total yield has a significant but negative correlation with B/E, r = −.28, p < .001, at the 0.01 significance level. This result suggests that higher B/P ratios are linked to lower total yields,

indicating that banks with higher ratios may face less favorable market conditions or investor sentiment. Similarly, the total yield showed a significant negative correlation with earning yield, r = −.181, p < .012, at the 0.05 significance level. This result implied the stock price movement does not follow the earnings patterns of the commercial banks in Nepal.

Regression Analysis

Table 4

Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.315a	0.099	0.084	37.25892

Dependent Variable: Yield

Predictors: (Constant), E/P, Ln_SIZE, B/P.

The R value (0.315) signifies a moderate positive association between stock return and the independent variables; (E/P), Ln_SIZE, and B/P. The R Squared (0.099) indicates that the selected predictors explain 9.9% of the variation in stock return, suggesting other factors play a significant role. The Adjusted R Squared (0.084) accounts for predictor adjustments, ensuring only meaningful contributions. The standard error of the estimate (37.25882) reflects the average deviation of actual stock returns from predicted values, indicating model accuracy.

Table 5

ANOVA Analysis

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	28245.36	3	9415.119	6.782	.000
Residual	256822	185	1388.227		
Total	285067.4	188			

Dependent Variable: Yield

Predictors: (Constant), E/P, Ln_SIZE, B/P

Table 5 presents the complete significance level of the model by examining whether the independent variables jointly explain a significant portion of the variation in the dependent variable. The model shows a sum of squares of 28,245.36 with 3 degrees of freedom (df = 3), resulting in a mean square 9,415.119. The residual sum of squares is 258,622 with 185 degrees of freedom (df = 185), yielding a mean square error of 1,388.227. The F-statistic (F = 6.782, p < .001) implies the model is statistically significant. It means that at least one predictor element significantly explains the variation in stock return. The p-value is less than .001, which posits the association between the predictors and stock return (Yield). This indicates that the model has explanatory power.

Table 6

Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients	T value	P value	VIF	Remarks
	B	Std. Error	B				
(Constant)	-293	133.274		-2.199	.029		
Ln_SIZE	12.663	5.354	0.178	2.365	.019	1.16	Failed to reject
B/P	-36.72	13.273	-0.224	-2.766	.006	1.35	Failed to reject
E/P	0.147	1.34	0.009	0.109	.913	1.46	Rejected

Dependent Variable: Yield

The regression analysis examines the impact of Ln_SIZE), B/P, and E/P on stock return (Yield). The model shows that the constant term is -293.014, and statistically significant ($p < 0.029$). This suggests that when all predictors are zero, the estimated stock return would be -293.014. The coefficient for Ln_SIZE is 12.633, which is statistically significant ($p < .019$), indicating that a 1-unit increase in bank size is associated with a 12.633-unit increase in the returns from stock. This implies that bigger banks tend to provide more returns from the market.

Conversely, the coefficient for B/P is -36.719, which is statistically significant ($p < .006$). It implies a one-unit increase in the B/P leads to a 36.719-unit decrease in stock return. The finding implies that a greater book yield is related with lower stock returns. It suggests that investors may be adversely impacted by higher book yields. However, earning yield (E/P) is not statistically significant ($r = 0.147$, $p = .913$), indicating that earning yield is not significantly related to stock return. The regression result implies that earning yield does not significantly influence stock returns for investors.

The values of variance inflation factor (VIF) for all predictors are below 3, and the Tolerance values are above 0.1, indicating no multicollinearity issues among the independent variables (Zuur et al., 2010). The result of emphasizes the key role of SIZE and B/E in shaping stock returns, with bigger banks and higher book yield negatively affecting stock returns.

5. Discussion

The regression and correlation assessment of internal factors and stock returns produced results that differ from previous studies. The bank size has the significant positive coefficient on stock returns. It confirms that bank size has the significant positive influence on stock returns of Nepalese commercial banks. The result suggests that larger the market capitalization higher would be the returns. Hence, as bank size increases, total returns also magnify. This finding is supported by the empirical result of Pradhan and Balampaki (2004) and Shrestha (2013); however, this result contradicts with the conclusions of Chan et al. (1991) and Fama and French (1992). Further, it also contradicts with the conclusions of Poudel (2024), Chan et al. (1991) and Fama and French (1992). In the Nepalese context, this suggests that larger commercial banks achieve higher stock returns, likely due to their stronger financial stability and increased investor confidence as well as future financial prosperity of the commercial banks.

The study identified that regression coefficient of B/E ratio is negative and statically significant on stock returns. The significant negative coefficient indicates that B/P has the adverse impact

on stock return in Nepalese commercial banks. This suggests that higher B/E ratios in these commercial banks are associated with lower stock returns, possibly reflecting less favorable market conditions. This finding is similar with the result of Poudel (2024), Dangol and Acharya (2020) but oppose to the finding of Shrestha and Balampaki (2004), Rosenberg et al. (1985), Stattman (2080), Chan et al. (1991), and Fama and French (1992). The reason of conflicting result might be the existing empirical evidences are from large well stablished capital markets, but this finding is small and only commercial banks sectors where stock prices are more sensitive.

As oppose to expectations, the regression analysis indicates that earning yield has positive regression coefficient in relation to returns from stock. However, the coefficient is statically insignificant, suggesting that earning yield has the insignificant or negligible impact on common stock returns in Nepalese commercial banks. It implies that earnings yield does not influence stock returns. The results contradict with the evidence of Poudel (2024), Shrestha and Balampaki (2004), Chan et al. (1991), and Fama and French (1992). The insignificant impact of earning yield on stock returns could be related to the high price volatility in the Nepalese commercial banks, influenced by political events, dividend and earning announcement, periodic financial reports of the banks and central bank monetary policy. Additionally, other factors than bank's earning variable, such as market sentiment, political events, macroeconomic conditions, or other valuation metrics may play a stronger role in the share market in Nepal. The study result also indicates a preference for speculative trading over fundamental value investing in Nepal's stock market. Stock prices driven non-specific factors and do not follow the earnings pattern of commercial banks.

6. Conclusion

This research examined the effect of fundament variables on stock returns in commercial banks of Nepal like other capital markets of developing economies. It employed cross-sectional panel data during the ten year periods for all commercial banks listed in the NEPSE. The research exposes optimistic association between SIZE and E/P with stock returns. Conversely, B/P shows an adverse correlation with stock returns. But the results on the association between E/P and stock returns contrast from those of previous studies. Descriptive analysis indicates there is high fluctuation in stock price in stock market because there is wide difference between minimum and maximum average return. It can be concluded that while some fundamental factors, such as SIZE and B/P ratio, significantly predict stock returns, but not earnings yield in the case of Nepalese commercial banks, suggesting that fundamental anomalies remain effective among the Nepalese investors.

7. Implications

Highly capitalized banks, as measured by Ln_SIZE, tend to offer higher stock returns, implying that the investor would benefit by investing in large sizable banks. The negative association between B/E and stock returns indicates that higher book yield are related with lower returns. In other words, underpriced stocks do not performance well. The insignificant earnings yield implies that it does not play a crucial role in forecasting stock returns in case of Nepalese banks. It demonstrates the investors prioritize on more impactful fundamental factors when constructing the stock portfolio. It aids in informed decision-making when selecting stocks based on corporate performance.

8. Limitations and Direction for the Future Research

This research focused solely on commercial banks listed on NEPSE, using limited fundamental variables and excluded macroeconomic variables. As a result, the findings may not be applicable to other sectors, and the outcomes could differ if applied to stocks outside the banking industry. Future studies may extend fundamental analysis to other sub-sectoral NEPSE indexes, such as finance companies, development banks and microfinance companies for more precision. In addition, future researchers could enhance their studies by examining the impact of micro economic factors on returns of floating shares of listed banks.

Conflict of Interest

Authors declare no conflict of interest while preparing this article.

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