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FACTORS THAT INFLUENCE STOCK MARKET PERFORMANCE IN MALAYSIA

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ABSTRACT

The performance of Malaysian stock market has been influenced by several factors which will cause the stock price falls and rise. The factors can be known as macroeconomic variables where all the factors are a significant fiscal, natural, or geopolitical event that has a broad impact on a regional or national economy. Any changes of macroeconomic variables somehow will influence and give various impact to the economy. In the event of a change, the investors need to aware and prepare to take steps to understand the market movement. The aim of this research is to identify the factors that influence the stock market performance in Malaysia. This research represents the stock market index of Malaysia which is KLCI as the dependent variables and interest rate, exchange rate, inflation rate and money supply as the independent variables. The yearly data of forty years ranges from 1981 to 2020 was used for this research study. Therefore, to analysis the data, we use panel data and run it by E-views version 10. Hence, there are some methodologies used to identify the significance and relationship such as descriptive analysis, classical assumption test, correlation test and regression analysis. The findings of the study revealed that there is significance in exchange rate while insignificance result from interest rate, inflation rate and money supply towards the stock market index of Malaysia. It is concluded that there is significant relationship between the macroeconomic variables on the Malaysian stock market index.

Keywords: Stock Market Index, Kuala Lumpur Composite Index (KLCI), Interest Rate, Exchange Rate, Inflation Rate and Money Supply

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INTRODUCTION

1.1 Introduction

The stock market has always been an important source for sustaining and boosting a country's economic progress. Generally, the stock market is a public market for purchasing, selling, and issuing stock that trades on a stock exchange. A strong stock market position is beneficial to economic development since it allows enterprises to access public funds. From an economic standpoint, the price of a stock represents investor expectations about a country's future financial status. In today's financial system, a country's stock market position demonstrates its capabilities, and it aids financial intermediates between lender and borrower. Previous research identified several of macroeconomic variables that could influence the stock market.

There have been numerous studies conducted by researchers on the Malaysian stock market. Malaysia's stock exchange, according to Dercio Chauque (2017), plays a key role in driving capital formation and sustaining the country's economic growth. It properly distributes limited resources, which are subsequently used to fund numerous types of initiatives, leading in economic success and growth. Furthermore, a thriving stock market acts as a risk diversification mechanism for projects, lowering the uncertainty about returns. Major institutional investors, such as mutual funds, insurance companies, investment banks, and hedge funds, frequently participate in this market.

In addition, most investors buy stocks in order to maximise their return on investment. Therefore, it is important for the investor to consider the impact of the macroeconomic variables on the stock market performance before they decided to invest in any stock market. According to Hussain et al. (2009), stock markets play an important role in the economy. Stock markets, they argue, serve as a conduit for mobilising domestic resources for beneficial investments. They went on to say that in order for the stock market to play this role, it must have a strong tie with the economy. When the economy is slowdown, it will give effect to the stock market movement. A rising stock market may imply that economic conditions are good for businesses, resulting in increasing profitability. A falling stock market, on the other hand, may