UNIVERSITI TEKNOLOGI MARA

FACTORS AFFECTING STOCK MARKET RETURN IN MALAYSIA

MOHD ALIF DARWISH BIN AHMAD FAIS

2020978829

REPORT

Bachelor of Business Administration
(Investment Management)

Faculty of Business and Management

7 FEBUARY 2022

ABSTRACT

This study examines the link between the Malaysia stock market return (FTSE KLCI) and four macroeconomic factors, namely Interest Rate, Gross National Income, money supply and Gross Domestic Product during a 40-year period from 1981 to 2020. The majority of the previous research, however, are conducted in industrialised countries and large economies rather than growing markets like Malaysia. The goal of this study is to expand on previous research by looking at the influence of several macroeconomics drivers on Malaysia stock market return (FTSE KLCI), such as Interest Rate, Gross National Income, money supply and Gross Domestic Product. The assistance in the relief of the strain connected with various research orders is studied using descriptive analysis in this study. To find out if the data gathered is stationary or not, Unit Root Test is also conducted. The correlation test was also used in this study to examine the significance of the association between variables. Multiple Regression Analysis was also included to know the coefficient value, the significance of variables of Dependant and Independent of each variable. From all the test conducted, we found out that the interest rate has a significance relationship with the Stock market Return on two test which is the correlation test and Multiple Regression Test. For Gross National Income, it has significance value in correlation test but not in the regression test. Meanwhile for Money Supply, the variable doesn't have significance relationship on both correlation and Multiple Regression Test. Lastly, Gross Domestic Product also has the same result such as Gross National Income which it has significance value in correlation test but not in the regression test.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1: INTRODUCTION

1.1 Introduction

The stock market is a marketplace where a company's shares are issued and traded. This is a way for enterprises to generate cash for their operations while also indirectly stimulating a country's economy and improving society's general lifestyle. Since the considerable increase in inflation paired with the devaluation of the local currency versus foreign currencies, investors have stepped into the stock market to seek higher returns and protect their money. Investors, on the other hand, frequently fail to achieve their expected returns from their investments because stock market trading is unpredictable, since the market frequently reacts to changes in macroeconomic conditions and sometimes for bad reasons.

In many developed and emerging nations, the stock market is an important aspect of the economy. The Malaysian stock market is an important mechanism for enabling the movement of money between those who want to save and people who want to invest or utilise the money for other purposes. It also ensures that resources are directed to the most profitable investment possibilities. The Malaysian capital market is fairly large in comparison to the Malaysian GDP, as these numbers demonstrate. As a result, given the scale of the Malaysian capital market, it is feasible that this market might play a large role in the country's economic growth. Furthermore, due to its consistent growth in recent years, Malaysia's stock market is expected to play a significant role in the global financial market, providing attractive investment opportunities for foreign investors.

Regardless, stock market fluctuations may have a significant influence on the economy and, as a result, on people's everyday lives. The economy of any country may be readily disrupted by a drop in stock values. Back in the 1930s, the stock market crash of 1929 was a major cause of the Great Depression, which resulted in a worldwide fall in economic activity. Furthermore, Farmer (2015) claims that the stock market's decline in 2008 gives a plausible explanation for the severity of the Great Recession.

Several times in history, the stock market has collapsed, including the historic Crash of 1929, Black Monday in 1987, and the financial crisis of 2008. While the specific reason of each of these disasters is difficult to pinpoint, stock market collapses are often driven by a mix of speculation, leverage, and a number of other variables.