# UNIVERSITI TEKNOLOGI MARA

# THE INTERRELATION ON STOCK RETURN AND INFLATIONARY VARIABLES IN MALAYSIAN FINANCIAL MARKET

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# ABSTRACT

The purpose of this research is to find the interrelation on Stock Return and Inflationary Variables in Malaysian Financial Market. The issue arises when several researchers conduct their research on this similar topic to prove the validity of Fisher hypothesis. However, they still cannot get a conclusive answer on the hypothesis mentioned earlier. Furthermore, the similar research has been well documented in developed market, thus giving motivation to conduct this research in Malaysia as this country is categorized under developing countries. To understand the factors that affect stock return in Malaysia is considered as important. In doing so, this research will investigate the long run relationship between Stock Return and its determinants: consumer price index (CPI), industrial production (IP) and money supply (M1).The independent is chosen to prove whether these variables can affect stock return. Secondary data collected for this research were obtained from several reliable platform such as Thompson Reuters, The Department of Statistic Malaysia, Bank Negara Malaysia World Bank, and Bursa Malaysia for 30 years from 1990 until 2020. The aim of investigating this research is to focus on descriptive analysis, correlation, regression and to test assumptions. Gross domestic product is chosen as an improvement for this research to address other economic forces.

# ACKNOWLEDGEMENT

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# CHAPTER ONE : INTRODUCTION

## 1.1 Introduction

In global perspective, the findings on the relationship between stock returns and inflation in developed economies supported with written evidence. Despite that, similar research in different economies from developing countries are limited. As one of the developing countries, Malaysian Financial Market have gained their attention from investors as it is capable in offering great returns to them. The main issue arises is to find the validity of Fisher hypothesis on stock returns that leads to few variables that are deemed to be the contributors to prove the reliability of the hypothesis. This research consists of five chapters which every each of it contain extensive explanation that discuss the primary issues. Chapter one explains the introduction of the research, which researcher need to define the problem by diagnosing causes, evaluate the condition and specify the objectives of the research conducted. This chapter will discuss briefly about all the components to figure out the complication of the research such as background of study, problem statement, research question and objectives, significance of the study, scope of study, limitation and constraint, definition of each key terms and finally, summary.

## 1.2 Research Background

The research conducted is to find the interrelation on Stock Return and Inflationary Variables in Malaysian Financial Market. Irving Fisher (1930) purpose that changes in inflation affects nominal interest rates. In other words, tendency for nominal interest to change fully depends on the inflation rate. In stock market, Bodie (1976) lengthen the Fisher hypothesis by stating that this relationship can also be related accordance with hypothesis of "generalized Fisher effect" where common stock can be used as a hedging method for inflation. An inflation hedge is a financial strategy used by investors that reduce potential risk of the investment. The primary reason for this is to secure their investment from experiencing losses during inflation period. There are a