UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS THAT AFFECTING KLCI STOCK MARKET RETURN IN MALAYSIA

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ABSTRACT

From 1990 to 2020, this study investigates the link between the Kuala Lumpur Composite Index Stock Market Return and three macroeconomic factors, comprising interest rate, exchange rate and money supply on a yearly basis with a total of 30 years. The majority of research, on the other hand, are undertaken in developed countries with huge economies, rather than emerging markets like Malaysia. As a result, the goal of this study is to expand on previous research by looking at the effect of many macroeconomic drivers on the KLCI stock market return, such as interest rate, exchange rate, and money supply. To analyse the statistical connection and test the hypotheses, this paper used several data analysis. EViews was used to analyse the data. The results showed that the interest rate and stock market return have a negative association, while the money supply and stock market return have a positive link. The association between exchange rate and stock market return has been discovered to be minimal.

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1.1 Introduction

Stock market is a group of markets and exchanges in which regular operations such as selling, buying and issuance of publicly held company shares occur. Stock market also a place where the company's equity is sold and traded (James Chen, 2021). This is a way for businesses to raise their capital while indirectly stimulating the economy and improving society's general lifestyle (Paul Anthony, 2016). Since the major increase in inflation paired with the depreciation of the national currency versus foreign currencies, investors have stepped further into stock market to achieve higher returns and safeguard their capital (Uma Murthy, 2016). Nonetheless, investors frequently not able to meet their intended returns from the investments as stock market trading is volatile because market rapidly acts to changes in macroeconomic factor and occasionally for inexplicable reasons.

A stock market contributes significantly to the country's development and growth of the economy. In reality, the stock market indices are frequently employed to measure the overall success of a country's economy. The development of the stock market in emerging economies has a significant impact on financial institutions' operations (Levine and Zervos, 1998). The stock market is also a trading platform in which stocks and shares are traded commodities. It also contributes to the formation and expansion of a strong and competitive economy (Masoud, 2013). As a result, the domestic stock market is likely to have a strong correlation with economic growth.

There are many research have recently been undertaken to look into the relationship between the stock market and real-world economic activity. According to Zukarnain (2012), this is because the stock market has indeed been acknowledged as playing a significant influence in a country's economic growth, which has sparked interest in this sector. Investors in the stock market, along with policymakers, need to understand the relationship between stock market volatility and macroeconomic variables volatility. Investors may be able to better forecast stock price fluctuations by learning about macroeconomic indicators (Zukarnain, 2012).