UNIVERSITI TEKNOLOGI MARA

THE MACROECONOMIC VARIABLES EFFECTS ON THE U.S STOCK MARKET INDEX (S&P 500)

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ABSTRACT

The Standard & Poors 500 (S&P 500) stock market index is one of the stock market indices for the United States (US). The S&P500 tracks the stocks of 500 large companies in the US stock market. A stock market index is key in determining whether or not the stock market of a country is in a bull or a bear market. However, there are a lot of variables that influence the stock market index. The study is conducted in order to determine The Macroeconomic Variables Effects on the U.S Stock Market Index (S&P 500). The macroeconomic variables that are included in the study in order to determine the effects of S&P 500 annual returns are the Annual Gross Domestic Product (GDP) Growth Rate of the U.S, Industrial Production Index (IPI) of the U.S, Inflation Rate of the U.S, US Dollar Index (USDX) and Unemployment Rate of the U.S. The period of the study is from the year of 2000 till the year 2020. The data that is used in the study is collected from secondary data source such as reputable website from macrotrends, Trading Economics, The World Bank, MarketWatch and Federal Reserve Economic Data (FRED). The model of the study that is used is time series model. The findings from the result of the study concluded that out of the five macroeconomic variables, there are only one that is significant and has a negative relationship which is inflation rate. Others such as Annual Gross Domestic Product (GDP) Growth Rate of the U.S, Industrial Production Index (IPI) of the U.S and unemployment rate are insignificant and has a negative relationship with the S&P 500 with an exception of IPI which has a positive relationship with the S&P 500.

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INTRODUCTION

1.1 Introduction

Various research papers have been done and proven evidence that the stock market index has been affected by macroeconomic variables. Such as in the case of the research titled "Impacts of Macroeconomic Variables on The Stock Market Index in Poland: New Evidence", in which the stock market index of Poland was affected by the macroeconomic variables and the government economic policy (Hsing & Hsieh, 2012). The research findings have proven that the macroeconomic variables of the study do impact Poland's stock market index, such as a higher real GDP having a positive relationship towards Poland's stock market index.

In this chapter, the discussion will introduce the background of the research, problem statement, research questions, research objectives, the significance of the study, scope of the study, limitations of the study and lastly, the definition of key term. It is an introduction towards the research topic and gives valuable information regarding the matter of the research.

1.2 Background of the Study

In recent history, the financial market in the United States of America has been struck by one recent financial crisis that still lingers in the mind of the general population of Americans and also in the minds of the global population, which was the 2007 – 2008 financial crisis that was started from low credit and neglectful lending by financial institutions in the country that drove a housing bubble in America that led to a global financial crisis in the year of 2007 – 2008 (Singh, 2021).

The effects of that particular financial crisis could still be felt by Americans currently and also the global population to an extent. The direct effect on the United States of America financial market was immense during that time in which led to the loss of the stock market value up to $8 trillion from 2007 till 2009 and also affected macroeconomic variables such as the unemployment rate of the country (Merle, 2018).

Subsequently, the Stock market index is vital in determining the performance of