UNIVERSITI TEKNOLOGI MARA

THE EFFECTS OF MACROECONOMIC VARIABLES TOWARDS THE MALAYSIAN STOCK MARKET

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1.1 Introduction

The stock market was always a crucial source for a nation's economic development, both in terms of maintaining and increasing its overall performance. There is a public market for buying, selling, and issuing stocks that trade on a stock exchange, which is referred to as a stock exchange or the stock market. A strong stock market position is beneficial for economic development because it enables enterprises to raise funds from the general public, which is essential for growth. From an economical perspective, the price of a stock represents the expectations of investors on the future financial status of a certain country. It is expected that the stock market positioning will demonstrate the ability of a country in the current financial system, and it will assist financial intermediaries between lenders and borrowers. A large number of macroeconomic variables were identified in numerous studies as having an impact on the stock market. As a result of the demutualization process, the KLSE was renamed and is now recognized as Bursa Malaysia Berhad, which is a demutualization corporation. In order to improve its competitive position and to be accountable in a competitive market trend, BMB sought to demutualize in order to become more consumer and market-oriented as a part of the stock market sector. The FTSE Bursa Malaysia KLCI was created in 2009 as a new branding that would replace the Kuala Lumpur Composite Index (KLCI), and this institution serves as the primary market indicator for the Malaysian stock exchange. The Kuala Lumpur Composite Index (KLCI) is used as a reference and source of data in the majority of research studies. The Kuala Lumpur Composite Index (KLCI) is constructed in accordance with the rules established by the Financial Times (FTSE). The index is constructed in accordance with the internationally recognised technique and standard.

In a country's economic development, the stock market's relevance can be directly related to the governance of the market, as well as the proper and effective regulatory framework that has been developed by policymakers. The stock market has a considerable impact on the promotion of capital formation and the sustainability of economic growth in a given country. As a result, it efficiently allocates limited resources, which are then used to finance various types of projects, resulting in increased prosperity and economic progress for the entire country. Furthermore, it serves as a means for project-related risk diversification, which helps to reduce the uncertainty associated with investment return expectations. It has been stated by Olweny and Kimani (2011) that investing surplus funds in financial products that better fit their liquidity preferences and risk appetite is made easier by the stock market. According to Nordin and Nordin (2016), the Malaysian stock market capitalization and total debt outstanding were 165 percent and 97 percent of nominal GDP, respectively, at the end of 2010. This data demonstrates that the Malaysian capital market is substantial in comparison to the size of the Malaysian economy. Consequently, given the size of Malaysia's capital market, it is feasible that the market will make a substantial contribution to the country's economic development. When it comes to emerging countries such as Malaysia, the unpredictable nature of stock market returns has emerged as a prominent topic of discussion in this globalization era. According to Lim and Sek (2013), excessive stock market volatility results in a wide range of returns and, as a result, higher levels of risk. Being well-versed in the elements that influence stock market volatility allows investors to make more accurate predictions of stock price fluctuations, which in turn minimises the likelihood of suffering a loss on their investments. There is broad agreement among macroeconomists and finance theorists that the performance of the stock market is influenced by a variety of macroeconomic issues. The nature of the relationship between macroeconomic variables and stock market performance has been studied in developed economies such as the United States, the United Kingdom, and Germany, but it is possible that this relationship will be different in a developing economy such as Malaysia, which is still in the early stages of development. Because of this, the current paper's goal is to study the relationship between the gdp, interest rate, foreignd direct investment, exchange rate and inflation on the performance of the Malaysian stock market. For policymakers, economists, and investors alike, Kutty (2010) argues that understanding the relationship between macroeconomic variables and stock market performance is extremely important. Being aware of this relationship allows them to more effectively access the efficiency of the market during portfolio management, which is important given that the most significant risks they face in the stock market can be traced back to changes in macroeconomic variables.

1.2 Background of Study

When it comes to the business world, the stock market is the market that brings buyers and sellers of shares together. The stock market is critical for the dissemination of information that is necessary for the development of an economy in a country. It also serves as a trading platform, allowing customers to exchange their shares openly by purchasing and selling them on the stock market. The stock market in Malaysia has a unique property in that it is capable of triggering the stock price movement of a pattern based on the performance of the economy. Increased awareness and attention are being given to the relationship between stock market return and macroeconomic variables, which is a positive development. They are employed because they are able to accurately predict both good and negative news in the stock market. These variables have a statistically significant link with stock prices, and they are also capable of predicting stock prices. Additionally, it is corroborated by Maysami and Koh (2000), Mukherjee and Naka (1995), Rjoub, Türsoy and Günsel