UNIVERSITI TEKNOLOGI MARA

EQUITY MARKET: IMPACT OF MACROECONOMICS VARIABLES ON THE STOCK MARKET RETURNS IN MALAYSIA

SYAHIDA SYAFIQAH BINTI SUHAIMI
2018682772

Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
Bachelor of Business Administration
(Investment Management)

Faculty of Business and Management

JULY 2021

ABSTRACT

The researcher aims to answer the issue arise which is macroeconomic variables influence the stock market return. Therefore, the purpose of this research is to examine how the macroeconomic variable such as interest rate, exchange rate and inflation rate will impact the stock market return. Kuala Lumpur Composite Index (KLCI) being put as an indicator to the performance of the stock market return and Malaysia's economy. This span of period starts from 1990 until 2020, a period of 30 years. Specifically, this study is to investigate how the stock market returns reacts towards the changing figure of this macroeconomic variables. The researcher wants to determine whether the independent variables have significant or insignificant relationship with the stock market return. The dependent variable used in this study is Kuala Lumpur Composite Index and the independent variable are interest rate, exchange rate and inflation rate. Thus, the researcher uses the econometrics method which is Ordinary Least Square to test the collected data, specifically it is a multiple linear regression. The obtained data will be arranged similarly to the time series data before we regress the data in the E-view. The finding of this research is only money supply (M3) is significant while the other two variables are not significant. This can be supported by the recommendation given such as using another alternate independent variable such as Industrial Production, short term interest rate and crude oil price. To conclude, the stock market return is influenced positively by interest rate thus negatively related to the exchange and inflation rate.

ACKNOWLEDGEMENT

First and foremost, I would like to thank God Allah or all the opportunities given even though I am juggling between the working hour during my internship and this final year project. However, we plan, indeed Allah are the best planner. He has planning well throughout my best 23rd of life where I finally being able to complete this task and it is the final task that I got to finish my degree. As what people said, I am one step to graduate soon.

In addition, I would like to express my deepest gratitude to my special lecturer and also known as a dedicated final year advisor, Puan Rabiatul Alawiyah Binti Zainal Abidin for her constant support, guidance and patience. Glad to say that her generosity in helping me are top notch. She never fed up to answer and reply to my silly question through the WhatsApp. In this Covid-19 era, I would say that lecturer has invested so much time to the technology development in order to keep up to date with the student and guide us to the right path. All her comment and reprimand are the best lesson for me to fix my mistake.

On the other hand, thanks to my parents Encik Suhaimi Bin Mamat and Puan Siti Rohaida Binti Abdul Wahab for their endless support. They have been my pillow of strength for all this while. Their encouragement keeps me alive to be who I am today. Their time, money and emotional support are so valuable for me started from the first day I enrolled as the degree student until I am now finishing up my thesis before I graduated.

Finally, thanks to my beloved friends in UiTM Segamat who sticks together and always offer a lending hand. Special recognition to my best friend Mohamad Irfan Akmal Bin Harun for always checking me to complete this thesis. Hope all this work would offer a lot of benefits to me and all the generations to refer. Millions, thanks to my classmates JBA 251 who I can share the idea and suggestions to be added and improve in this research.

TABLE OF CONTENTS

CHAPTER ONE
INTRODUCTION

1.1 Introduction

The advent of technology has brought up interest of people to be in the stock market. As the years change, the number of people in the capital market start to be large. Thus, the stock market has significant changes over the past thirty years. The information and data are easily accessible through phone and making money will be easier for people in the stock market. Therefore, the stock market is place for investors who have different approaches regarding the fluctuation of the prices. The economy is vital fordeveloping countries especially when incorporate with all the variables. The centralized and businesses of the country must be supported by the outgrowth of economic performance. Economy growth can be causality of the independent variables and acted as a touchstone for the internal or external development of the country. Furthermore, stock exchange plays the crucial part in the economy as one of the funded investments to gain capital. Price of stocks is one of the factors to consider in the functioning of an economy. Okereke and Amusa (2021) state an economy is considered to be doing well when the price of stocks is at high level. Operators of stock exchange market have an objective which they have designed to accomplish, and this objective should be to maximize shareholders returns. Stock exchange activities are affected mainly by macroeconomic characteristics. When investors value the stocks, they deem macroeconomic variables. For the evaluation of stock market returns they used exchange rate, inflation rate and interest rate as indicators of macroeconomic variables which have greater effect on stock market. Stock market plays a major role in financial intermediation in both developed and developing countries. The stock market avail long-term capital to the listed firms by pooling funds from different investors and allow them to expand in business by offering investors alternative investment avenues to put their surplus funds. Stock market index in this regard provides a historical stock market performance, the yardstick to compare the performance of individual portfolios. Malaysia stock market efficiency is based on KLCI. The chronology of Kuala Lumpur Composite Index is its daily history of KLCI. KLCI basically where the benchmark for estimating the predictive accuracy and effectiveness of splitting and selecting the input