UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF MACROECONOMIC VARIABLES ON THE STOCK MARKET RETURN: EVIDENCE FROM ASIA-PACIFIC

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ABSTRACT

This study examined the relationship between macroeconomic variables; namely gross domestic product (GDP), index of industrial production (IIP), money supply (M1), interest rate (INT) and consumer price index (CPI) with stock market returns. The selected stock markets are of countries within the Asia-Pacific financial hub. Out of all forty-five (45) countries within the Asia-Pacific region, researcher is able to collect sufficient data for eleven (11) countries which are Australia, India, Indonesia, Japan, Malaysia, Philippines, Russia, Singapore, Thailand and United States. These countries represented the whole population of Asia-Pacific stock markets in determining how macroeconomic variables will affect the market return. The data is collected for six (6) years and it is presented in a panel data. Researcher discovered that there is a significantly positive relationship between GDP and market return (MR) meanwhile the other two significant variables; M1 and CPI have an adverse impact on MR. The remaining two variables; IIP and INT were found to be insignificant in predicting the dependent variable in this study. Hopefully, the findings ascertained in this study could help personal or corporate investors in assessing and predicting the return of the investments with the macroeconomic determinants used. For further research, it is suggests that the researcher could examine other macroeconomic determinants of market return of the Asia-Pacific region or other stock markets such as the exchange rate, oil price and gold price. These new variables may help in obtaining more accurate and precise findings.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Equity market is undeniably the foundation of a strong economy of a country. Commonly known as stock market, it is the market dedicated for the trading of equity instruments. A well-developed stock market aids in a country's growth by boosting savings while providing a bigger allocation of resources (Alshogeathri, 2011). For the last 25 years, stock market has shown an outstanding growth. In 1990s, its global market capitalization has exceeded the size of gross domestic product (GDP) of several countries including emerging countries.

In the United States alone, its stock market capitalization is about 51% which is mainly due to a robust growth in technological companies. United Kingdom stands with 8%, proving the fruitful effort of its government in introducing privatization policy in the country. Japan, at the peak of its financial bubble, reached an outstanding 13% of the respectively. This phenomenon is aided by the introduction of global investment as funds flow significantly from one country to another, with a massive $39 billion in 1991 to $50 billion in 1992 went to emerging and developed countries (Yu, 1996).

Not only does equity market offers diversification in equity investment locally and internationally which helps investors to lower its investment risks and attracts risk-averse financiers, it also mobilizes capital within countries which eventually leads to an industrial and commerce growth of a country (Talla, 2013). The presence of a stock market causes a high level of liquidity in the formation and allocation of capital hence attracting potential investment. Besides, it allows for a swift and efficient center for the selling of securities (Biyan, 2012).