UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN MACROECONOMIC AND STOCK MARKET RETURN IN MALAYSIA

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ABSTRACT

This study investigates the relationship of selected macroeconomic variables on stock market return. However, most studies focused on developed countries, and only some studies focused on developing countries like Malaysia. Thus, this paper aims to identify which macroeconomic factors are significant to the stock market return. The dependent variable for this paper is KLCI stock market return, and the independent variables are the four selected macroeconomic factors, namely interest rate, exchange rate, money supply, and oil price. The sample data is collected in monthly basis, which comprises of 10-year period starting from January 2007 until December 2016. The total observation for this study is 120 observations. In order to generate the result, Econometric software or EViews 9.5 was used. The data are analyzed by using the Ordinary Least Square (OLS) method. The result from the analysis shows that exchange rate and oil price are significant to the stock market return. Exchange rate is found to have a negative relationship with the stock market return. In contrast, oil price seems to have a positive relationship with stock market return. However, interest rate and money supply do not have a significant on stock market return.

Key words: KLCI stock market return, exchange rate, oil price, interest rate, and money supply

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Business has been practiced since centuries ago. Along with the time movement, business financial structure has grown tremendously which brought to the development of the economy. The evolution of corporate financial has lead to the creation of new sector; investment, and instruments to control the performance. However, there is one thing that has not change, which is the purpose where they aim to gain profit.

In order to maximizing their profit, the firms are in need to stabilize their business performance. Fearing from the fold of the operation, they seek for opportunities to involve in investment, specifically in stock market trading. Stock market is a place where companies can gain capital for their business operation, which can indirectly contribute to the economy of the country.

Besides stretching profit margin, it is also important for them to gain capital to keep the cash flows efficiently and enable them to enhance their business performance, stimulates investors' confidence and demand, thus increase the stock price and return. It is suggested by the economic theory that expected corporate performance should be reflected through the stock prices, and the economic level should be reflected by the corporate profits (Maysami, Lee, & Hamzah, 2004, p. 48). However, Murthy, Anthony and Vighnesvaran (2016) stated that investors usually fail to earn the return from their investment. This is because the stock market tends to be affected by the changes of macroeconomic events. Therefore, recognizing the relationship between macroeconomic variables that can influence the movement of the stock market return is rather crucial as it can help to formulate the macroeconomic policy of the nation.