UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN MACROECONOMIC FACTORS AND THE PERFORMANCE OF THE STOCK MARKET IN MALAYSIA: THE CASE OF MALAYSIA UTILITIES SECTOR

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ABSTRACT

The research on the factor for stock market performance has been widely documented for years. The objectives of this research are to analyzing the relationship between the several macroeconomic factors and the performance of Kuala Lumpur Utilities (KLUT) stock market. This research presents a study of the stock market in Malaysia over the period of 2018-2022. The total that has been observed from this study is 5 years. This research is to indicate real exchange rate, interest rate, inflation and money supply as independent variable while the dependent variable is Kuala Lumpur Utilities (KLUT) stock market. In addition, this research is utilizing descriptive analysis, correlation analysis, multiple linear regression, multicollinearity, and heteroskedasticity test to determine whether the independent variable is significant or insignificant towards Kuala Lumpur Utilities KLUT) stock market. Based on the results, three out of four variables were found to be significant. The inflation Rate (CPI), the Interest Rate (INT), and the Money Supply (MS) were either substantially negative or positive in comparison to the performance of the Kuala Lumpur Utilities (KLUT) stock market. The findings can help the investors in the decision on their portfolio investment.

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CHAPTER 1

RESEARCH OVERVIEW

1.1 Introduction

Notably, the global macroeconomy and financial markets have experienced significant hardship as a result of the coronavirus (COVID-19) epidemic in December 2019. In contrast to other areas of the economic and financial system, the stock market intuitively responds to this pandemic faster and more directly. Indeed, numbers of recent studies have shown that the COVID-19 eruption produces more erraticbehavior in the stock, gold, and cryptocurrency markets than it did in the years previous (Corbet et al., 2020; Haroon and Rizvi, 2020; Zhang et al., 2020).

The governance, adequate and effective regulatory framework created by the policymakers can be directly connected to the significance of the stock market in the development of a country's economy. The stock market is crucial for encouraging capital development and supporting a nation's economic progress. The volatility of stock market returns has emerged as a serious issue in this new era of globalization, particularly in emerging nations like Malaysia. According to Lim & Sek (2013) high stock market volatility leads to a huge variation of returns, and thus greater risk.

The stock market plays a crucial part in encouraging the growth of a nation's economy. As a result, many analysts have emphasized that a country's stock market can serve as a benchmark for determining that country's economic growth. According to many investors and policymakers, a sharp fall in the stock market could signal an upcoming recession, while a significant rise in the stock index could signal future economic expansion (Farmer, R. E., 2015). Recently, research has drawn attention to the volatility of Kuala Lumpur Utilities (KLUT) stock market performance.

The majority of investors held the opinion that macroeconomic factors significantly affect the volatility of stock prices. Investors can use macroeconomic determinants as a benchmark for the prediction of the stock market's performance and as a useful tool to understand the stock market's behavior. This is because of the way ASEAN stock markets operate, which leaves them dangerous to things like changing economic activity levels. The behavior of the variable itself demonstrates that the type of macroeconomic forces has a significant positive and negative impact on stock market performance. On the other hand, other scholars claim that macroeconomic changes have no impact on return, especially in efficient markets.

This chapter will discuss on the background of the study, problem statements, research questions, research questions, research objective, significance and scope of the study and definition of key terms.