Economic Research-Ekonomska Istraživanja

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rero20

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To cite this article: Zulkefly Abdul Karim, Fairul Shah Rizat Muhamad Fahmi, Bakri Abdul Karim & Mohamed Aseel Shokr (2022): Market sentiments and firm-level equity returns: panel evidence of Malaysia, Economic Research-Ekonomska Istraživanja, DOI: 10.1080/1331677X.2021.2025126

To link to this article: https://doi.org/10.1080/1331677X.2021.2025126

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Published online: 18 Jan 2022.

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ECONOMIC RESEARCH-EKONOMSKA ISTRAŽIVANJA
https://doi.org/10.1080/1331677X.2021.2025126

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Market sentiments and firm-level equity returns: panel evidence of Malaysia

Zulkefly Abdul Karim[a], Fairul Shah Rizat Muhamad Fahmi[a], Bakri Abdul Karim[b] and Mohamed Aseel Shokr[c]

[a]Faculty of Economics and Management, Universiti Kebangsaan Malaysia (UKM), Bangi, Selangor, Malaysia; [b]Faculty of Business and Economics, Universiti Malaysia Sarawak (UNIMAS), Kota Samarahan, Sarawak, Malaysia; [c]Faculty of Commerce, Tanta University, Tanta, Egypt

ABSTRACT
This study focuses on the impact of market sentiment on firm-level equity returns in Malaysia by hypothesising that market sentiment is a relevant risk factor. Understanding how the market sentiment reflects the equity return is crucial to market participants managing their portfolio investment risks. In modelling for firm-level equity return determinants using augmented Fama and French (1992, 1996) three-factor model, this study used data from a sample of 608 publicly listed firms for 2010–2019 and the dynamic panel GMM estimation technique. The findings revealed that market sentiment indices, namely Business Conditions Index (BCI) and Consumer Sentiments Index (CSI), strongly and positively influenced firms equity returns. Excellent market sentiment encouraged a bullish strategy, increasing share prices and, consequently, stock returns. In addition to market sentiment, other related variables, namely domestic market returns, international market returns, small minus big (SMB), high minus low (HML), and firms' liquidity ratio, are also found to be statistically significant in influencing firms equity returns. The policy implication provides a vital strategy to market participants, particularly fund managers and investors, to accordingly manage their risks and returns on their portfolio investment.

ARTICLE HISTORY
Received 27 April 2021
Accepted 29 December 2021

KEYWORDS
Behavioural finance; emerging market; investor sentiment; firm's stock returns; Fama-French multifactor model; system GMM; short panel; MIER

JEL CLASSIFICATIONS
G11; G12; G40; C33; C58

1. Introduction

One of the crucial topics in behavioural finance is the impact of investor sentiment on stock returns. Behavioural finance believes that investors do not always act rationally as they are influenced by various behavioural biases (Rupande et al., 2019). Investors are subject to sentiment, and that there are noise traders or irrational traders who may not apply a company's fundamentals when making investment decisions (Sayim & Rahman, 2015). Although sentiment does impact the activities in the stock

CONTACT Zulkefly Abdul Karim zak1972@ukm.edu.my

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