

ABSTRACT

This Study explores the relationship between macroeconomic variables and the stock market performance by utilizing correlation analysis on the indices movement at Kuala Lumpur Stock Exchange. The performance of the stock market will be measured based on the level of the indices stated by KLSE. This study had covered the period of ten years from the year 1993 until 2002, a period where the Malaysian economy had experienced various economic situation from booming economy up to the economic (financial) crisis and now it had recovered from a recurrence of the 1997-1998 Asian economic crisis. The variables that involved in this study are the macroeconomic variables and the stock market performance. There are three sub-variables under the macroeconomic factors in the analysis such as gross domestic product (GDP), interest rate and inflation rate. According to the research done by the previous researcher, the gross domestic product, interest rates and the inflation rates were considered the most common elements that being taken into their interest.

As compared to the previous studies on the relationship between the economic variables (gross domestic product, interest rate and inflation rate) and the stock market performance, there are some similarities or consistencies in terms of its finding. The outcomes from the data analysis suggested that the macroeconomic fundamentals in Malaysia i.e., gross domestic product (GDP), inflation rate and interest rate have different significant relationship level with the stock market performance. The major findings are (1) The gross domestic product has the highest significant level of relationship with the Malaysian stock market performance (2) The inflation rate also indicates the significant relationship with the performance of share price in the market and (3) The weakest significant relationship level between the economic variables and stock market performance is the interest rate.