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THE RELATIONSHIP BETWEEN COMMON STOCK PRICES AND INFLATION IN MALAYSIA

Abstract: This study aims to review the relationship between common stock prices and inflation in Malaysia. The empirical results suggest that the inflation rate have a statistically significant negative effect on Malaysia's stock market performance.

Keywords: inflation, common stock prices, Malaysia.

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ВЗАИМОСВЯЗЬ МЕЖДУ СТОИМОСТЬЮ ЦЕННЫХ БУМАГ И УРОВНЕМ ИНФЛЯЦИИ В МАЛАЙЗИИ

Аннотация: целью данного исследования является изучение взаимосвязи между ценами на акции и инфляцией в Малайзии. Эмпирические результаты показывают, что уровень инфляции оказывает статистически значимое негативное влияние на показатели фондового рынка Малайзии.

Ключевые слова: инфляция, цены на акции, Малайзия.

The relationship between inflation and stock market performance has been a subject of extensive research in financial economics, as inflation is often seen as a key economic variable influencing investor behavior and market dynamics. In emerging markets, such as Malaysia, this relationship may be further influenced by local economic conditions, government policies, and investor sentiment [3].

The analysis indicates a significant long-run relationship between stock prices and industrial production, consumer prices, and the exchange rate. Notably, there is a positive association with industrial production and consumer prices, suggesting that economic growth and inflation tend to drive stock prices higher in the long run. However, a negative association with money supply implies that higher money supply may lead to long-term inflationary pressures that can negatively affect stock prices. Short-term interactions reveal that stock prices react positively to industrial production and money supply shocks but show delayed responses to these variables. Additionally, exchange rate shocks tend to affect stock prices negatively, reflecting Malaysia's dependence on trade and sensitivity to currency fluctuations. Stock prices were found to predict future changes in the macroeconomic variables, providing useful information for policymakers [2].

It was found out the statistically significant negative impact of inflation on the Malaysian stock market. Higher inflation rates correlate with decreased stock market performance, particularly in times of economic crisis. Inflation rates exhibit higher volatility during crisis years compared to stable periods, which heightens the associated risks for stock market performance. The study suggests that policymakers and investors should closely monitor inflation rates, especially during crises, as they have a direct impact on stock market performance.

Studies conducted by Ibrahim, 2023 reveal both positive and negative relationships between stock returns and macroeconomic variables. The relationship's direction and strength vary across developed and developing countries, driven by factors like economic structure, methodology, and the variables analyzed. In many cases, macroeconomic growth, such as GDP and industrial production, is found to drive stock returns [1]. However, the relationship is more pronounced in developed markets, where financial development positively impacts economic growth. Vector 2022, employed models like Vector Autoregression(VAR) model is applied to analyze interactions among key macroeconomic variables and stock prices in Malaysia and Generalized Autoregressive Conditional Heteroskedasticity(GARCH) model is a statistical technique used to model and forecast time series data where there is volatility clustering, GARCH often show that macroeconomic shocks, such as interest rate and inflation changes, lead to significant stock market volatility. This volatility response is usually higher in developing economies due to less market stability and financial resilience. The study highlights that understanding these relationships can aid policymakers in managing financial markets and stabilizing economies, especially in emerging markets where data and research are limited. The paper concludes that the relationship between stock market returns and macroeconomic variables is complex and context-dependent. The study serves as a foundation for future research, urging scholars to consider region-specific variables, advanced methodologies, and longer time frames to capture the true dynamics between macroeconomic factors and stock return.

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