Research Paper

IMPACT OF MACROECONOMIC VARIABLES AND ECONOMIC FREEDOM ON MALAYSIA GLC’S STOCK RETURNS: AN ANALYSIS OF AUGMENTED FAMA-FRENCH THREE FACTOR MODEL

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Abstract

This paper investigates the determinants of the firm-level equity return of government linked companies (GLC’s) in which listed in Bursa Malaysia by augmenting the Fama-French (1992, 1996) three factor model. The focal point is to examine the role of macroeconomic policy variables such as inflation, economic freedom and firm-specific variables in influencing the GLC’s equity return. Using a sample of 16 GLC’s companies, and the period of 18 years spanning from the year 1995 until 2012, and estimation method of static panel data, the empirical results revealed that the fiscal policy variable namely budget deficit, and economic freedom have a significance impact on the GLC’s equity returns. However, monetary policy variable namely interest rates policy has no significant effect on the GLC’s equity return. In addition, the domestic market return, small minus big (SMB) and the high minus low (HML) are statistically significance in influencing the GLC’s equity return. This findings implied that the investor and the management of GLC’s need to observe the macroeconomic policy, in particular fiscal policy, the economic freedom, the domestic market return and the GLC’s specific variables in managing the risk and return of the portfolio.

Key Terms: GLC’s, Static panel data, Augmented Fama-French three factor model,
1. Introduction

The importance of the relationship between the stock market and macroeconomic variables clearly illustrated by previous studies either from a theoretical or empirical perspective. In general, the value of the shares depends on the psychology of investors who act like pirates and seek to build castles in the air when the stock price increases. In addition, the investors cannot predict the movement of stock prices in present or in future based on historical (past) stock price only. Since the stock prices is a fast moving variables, therefore understanding the relationship between stock prices and macroeconomic factors is necessary to the market participant (for example, the investor, fund manager, and the firm itself) in managing their investment portfolio, in terms of the risk and return relationship. This due to the fact that, any information in the market will be absorbed immediately in the market, and therefore it is expected that the movement of stock prices is very sensitive to the market news.

Realizing this, Malaysia through the 10th Malaysia Planning has implemented the New Economic Model (NEM), for which the government’s main policy is to transform the country towards achieving vision 2020. In achieving this goal, the investment sector plays a prominence role, therefore government-linked companies (GLCs) is expected to play an important role in supporting the Government Transformation Programme (GTP) and Economic Transformation Programme (ETP). In fact, the GLC’s also the backbone to the national economy because it involvement in many strategic sectors such as the trade, transport, energy and telecommunications and financial services.

In Malaysia, GLC\(^1\) plays an important role in contributing significantly to the country economic development. Up to date, there is 47 GLC companies that listed in Bursa Malaysia, in which consist of 5% from the total number of the listed companies. However, in terms of the share of market capitalization, GLC’s contributes 42% of the total market capitalization. This indicates that GLC’s companies play a dominant role in the stock market. Other than that, this sectors have contribute to the country’s economic growth with a total of RM63.5 billion taxes paid by the top 20 GLCs known as G20 from 2004 to 2014. Moreover, GLC’s have significantly contributed to nation-building and have been supporting the local economy, with G20 spending RM153.9 billion in domestic investments from 2004 to 2014, and providing employment to 225,050 Malaysians in 2014. Over the same period, G20 shareholder return grew 12.6% per annum, outperforming the FBM KLCI by 0.4% per annum.

The G20 companies are controlled by five government linked investment companies (GLICs) namely Employees Provident Fund (EPF), Khazanah Nasional Bhd (KNB), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH) and Permodalan Nasional Bhd. (PNB).

The G20 actually comprised of 20 GLCs but currently the companies of G20 consists of only 16 GLCs due to various mergers, demergers, divestments and other corporate exercises. The G20 companies are Affin Holdings Bhd, CIMB Group Bhd, BIMB Holdings Bhd, Malayan Banking Bhd (Maybank), Axiata Group Bhd, Boustead Holdings Bhd, Chemical Company of Malaysia Bhd (CCM), Malaysia Airports Holdings Bhd, Malaysia Building Society Bhd (MBSB), Malaysian Airline System Bhd (MAS), Malaysian Resources Corp Bhd (MRCB), Sime Darby Bhd, Telekom Malaysia Bhd (TM), Tenaga Nasional Bhd (TNB), TH Plantations Bhd and UMW Holdings Bhd. These public listed companies have recorded a threefold increase in combined market capitalization on Bursa Malaysia, surging to RM425 billion over a 10year period from May 2004. According to Putrajaya Committee for GLC High Performance (PCG), the G20 have achieved an economic profit of RM2.6 billion in 2005 up to RM8.4 billion in 2013. In addition, the G20 are currently generating revenue from operations and asstes in55 countries with their share of assets having grown from 11.6 per cent in 2004 to 28.7 per cent in 2013. Report from PCG (2015) showed

\(^1\)In general, GLC is a corporate entity that may be private or public (listed in Bursa Malaysia) where the government owns a stake using a holding company.
that several GLCs within the G20 are already regional champions include Axiata, CIMB, Maybank and Sime Darby. Other GLCs which have successfully extended their footprints overseas are CCM, MAHB, UEM and UMW.

Therefore, this paper contributes to the existing literature on the determinants of the firm-level equity return in following aspects. First, this paper augment the standard Fama and French (1992, 1996) three factor model by considering macroeconomic policy variables, inflation, economic freedom and firm-specific variables in modeling the determinants of GLC’s equity return. Second, this study provide an important information to the fund manager and the management of the GLC’s in understanding the various factor that may affect the GLC equity return, and therefore they can use this information in managing the risk and return of the portfolio. Third, for the government as a major stake-holders of the GLC, understanding the main factors that may affects the GLC equity-return is important in examining the overall performance of the company, and then the government can precisely plan to stabilize the stock market by injecting the cash flow to the GLC’s.

The remainder of the paper is organized as follows. Section 2 briefly discussed the previous literature review that relating to the relationship between stock returns and macroeconomic variables. Section 3 presents the estimation procedures in modeling the augmented Fama and French (1992, 1996) three factor model. Section 4 presents the main empirical results and finally Section 5 will summarize and concludes.

2. Literature Review

The behavior of the stock market can be traced back by two competing theories in portfolio analysis namely Markowitz mean-variance analysis and the capital market model. Markowitz (1952, 1959) proposed the mean-variance analysis in explaining the risk and return relationship of the portfolio. Generally, there are two types of risk namely unsystematic and systematic risk in holding the asset. The unsystematic risk can be removed by diversification, whereas the systematic risk cannot be removed by diversification. In contrast, Sharpe (1964), Lintner (1965) and Mossin (1966) have developed the capital asset pricing model (CAPM) in understanding the behavior of the security return. They argued that the market risk is the sole factor in explaining the security return, in which the sensitivity of the security return to market return is shown by the Beta. Since then, the financial economist has extended the capital market model because the market return itself is not enough in explaining the behavior of the equity return. For example, Ross (1976) introduced the arbitrage pricing theory by focusing on the multiple risk factors, whereas, Merton (1973) has introduced inter temporal CAPM based on multi period aspect of financial market equilibrium.

Many empirical studies in examining the determinants of equity return have been done in the developed and emerging stock market, and the results in general conclude that the macroeconomic variables play a major role in influencing the stock return. For example, Mukherjee and Naka (1995) and Maysami and Koh (2000) have investigated the determinants of share price in the United States, Japan and Europe, and the findings conclude that macroeconomic variables such as exchange rates, inflation, money supply, the level of economic activity are statistically significance in influencing the stock market. In fact, the economic indicators are also cointegrated with the stock market. Another study by Habibullah and Baharumshah (1996), and Ibrahim and Aziz (2003) have investigated the co-movement between macroeconomic variables and stock prices, and the results found that there is a cointegration between macroeconomics variables (GDP and M2) on stock prices. In addition, GDP and M2 are significant and positively connected with stock prices, while for other macroeconomic variables such as consumer price index (CPI), industrial production index (IPI) and M1 have showed a negative relationship with stock prices. Another study by Maysami et al. (2004) on the determinants of composite index in Singapore found that there is a co-integration between stock market index on real estate index and macroeconomic variables. Another study by Noh (2009) has examined a long-term relationship and short-term dynamics between stock
index of G20 countries on macroeconomic variables such as IPI, cost rate, money supply and interest rates. The empirical results found that there is a long run equilibrium relationship between macroeconomic variables and stock returns, and in the short run, interest rate is seen only affect stock prices (tested with Granger causality test).

Most of the literature concerning on the equity-return have focused on the effect of monetary policy shocks on stock market using macro and firm level studies, particularly in the developed economy. The empirical evidence (especially in the US) is in line with economic theory, finding a significant negative relationship between equity returns and the tightening of monetary policy. For example, Thorbecke (1997) found that tightening monetary policy (an increase in FFR) decreases stock returns for all of the 22 industry portfolio. Patelis (1997) finds that monetary policy, measured by innovations in FFR has negative influences on expected excess returns and expected dividend growth. However, the role of monetary policy in explaining the variation of stock returns is relatively small, that is only 3 percent as compared to the dividend yield, which contributed more in explaining the unexpected return variance. Besides the US study, there are some studies that have examined the impact of monetary policy in OECD countries, Euro area and UK, for example, Cassola and Morana (2004), Ioannidis and Kontonikas (2008), Kholodilin et al. (2009), and Gregoriou et al. (2009). Lastapes (1998) using a sample of G-7 countries and Holland found that money supply shocks have a positive and significant effect on real equity prices for all countries except France and the UK. For example, a recent study by Kholodilin et al. (2009) in the Euro area by using a heteroskedasticity approach proposed by Rigobon and Sack (2003) have found that an increase in the interest rate by 25 basis point results in a decrease in the aggregate stock market level of approximately 1 percent. In fact, the effects of monetary policy shocks by sectoral indexes vary, as the stock indexes have decreased in the range 0.3 percent and 2 percent in response to an increase in the interest rates by 25 basis points. In addition, Gregoriou et al. (2009) have examined the impact of anticipated and unanticipated interest rate changes on aggregate and sectoral stock returns in the UK, and showed that the existence of an asset price channel in the UK economy.

In Malaysia context, most of the previous study in modeling the determinants of the stock price has used macro-level data. Examples of the study are Allen and Cleary (1998), Clare and Priestley (1998), Lau et al. (2002), and Shaharudin and Fung (2009). In general, the results found that there is a co-movement or long run relationship between economic activity and the stock market. This findings signal that the macroeconomic indicators are the main factor that can influence the performance of the stock market. However, there are a few studies that have examined the determinants of the firm-level equity return. For example, Karim et al. (2011, 2013) and Karim and Zaidi (2015) have investigated the role of monetary policy on firm-level equity return, and found that monetary policy shocks (international and domestic) have a significant effect in influencing the firm-level equity return. They also found that, the effects of monetary policy upon firm-level equity return are also heterogeneous according to the sub-sector of economic activity, financial constrained and less-constrained firm, and the firm size (small and large firm). However, this study has not considered the role of macroeconomic variables and economic freedom in modeling the GLC equity return.

On the other hand, there have been a few studies (for example, Razak et al. (2008); Shelfeir (1998); and Lau et al. (2008)) that have examined the link between the intervention of government and stock return performances, but none of these studies showed that the intervention of government in stock market create and enhance the value of the firm. Another study by Easterly et al. (2001), Ferayuliani et al. (2011) and Musa et al. (2012) have studied the effect of economic freedom in determining the condition and position of the various aspects of a country and they obtained similar findings in a country that has a high degree of independence led to the growth of the country. These finding revealed that the better economic freedom will contribute to the better country’s stock market performance.

In addition, by using various approaches to measure the stock return, most of the previous studies found that macroeconomic factor is important to determine the stock return and the intervention of government will reduce the firm’s stock return. This study contribute to the literatures in the Malaysian context because based on previous literature in Malaysia, there are
no research that study the stock returns on GLC companies (G20) individually as a proxy to measure the stock returns because most studies only focus on market index like KLCI and Second Board index as a proxies for share price. Other than that, Fama and French Model is sufficient to explain the stock return, but this research has augmented the FF model by augmented the firm financial characteristic, monetary policy, macroeconomic variables and economic freedom just to showed that these macroeconomic and economic freedom are important to influence the stock returns. Therefore, with a significant influence of the G20 firms in the Malaysian economy will help the government, policy makers, investor and the management to make a decision in general.

3. Research Design and Methodology

Data and the Definition of Variables

The data of GLC’s stock prices, macroeconomic indicators, and GLC’s specific variables are collected from Data stream, while data for economic freedom is collected from Heritage Foundation and Frazer institute.

Dependent Variables

The dependent variables are the GLC’s stock return, in which has been expressed in terms of excess returns \( r_{it} \) as follows:

\[
r_{it} = \left[ \frac{SP_{it} - SP_{it}}{SP_{it}} + DY_{it} \right] - RF_t
\]

Where, \( SP_{it} \) is a closing stock price at year-end for firm \( i \) at time \( t \), \( DY_{it} \) is the dividend yield for firm \( i \) at year end at time \( t \) and is \( RF_t \) a risk-free asset (Malaysian twelve-month Treasury bill rate).

Independent Variables

The independent variables are domestic and international market return, firm-specific financial variables, SMB and HML, macroeconomics variables (budget deficit, inflation, and interest rates), and economic freedom.

(i) Market return

There are two market return variables, namely domestic (\( RM \)) and international market (\( IR \)) returns. The domestic market returns’ (\( RM \)) proxies are the returns from the Kuala Lumpur Composite Index (KLCI). The domestic market return is also expressed in terms of excess returns as follows:

\[
rm_i = RM_i - RF
\]

where, \( RM_i = \frac{KLCI_i - KLCI_{i-1}}{KLCI_{i-1}} \)

As international financial market integration increases, international market returns (\( IR \)) become more important in influencing domestic firms’ stock returns. Therefore, the returns from the Standard & Poor 500 Index (SP500) are used as a measurement of an international market return. The selection of this variable is reasonable given that the Malaysian stock market is an emerging and relatively small market which is exposed to international financial conditions, in particular to the stock market development from large countries such as the US.
Therefore, the international market return in terms of excess return can be expressed as follows:

\[ ir_t = IR_t - USTB_t \]  

where, \( IR_t \) = \left( \frac{SP_{500,t} - SP_{500,t-1}}{SP_{500,t-1}} \right) \), and \( USTB \) in the 12 months US Treasury Bill rate is a proxy for a risk-free asset.

(ii) SMB and HML

SMB, small minus big is the difference between the return on a portfolio of small stocks and the return on a portfolio of large stocks. HML, high minus low is the difference between the return on a portfolio of high-book-to-market stocks and the return on a portfolio of low-book-to-market stocks. According to Fama and French (1992, 1996), the two additional variables that are SMB and HML are provided the possible usefulness of a firm characteristics in explaining the returns. This means that the SMB (as a proxy for size variable), and the HML (as a proxy for the ratio of book value to market equity) are related to the risk factors in explaining the returns.

(iii) Budget Deficit

Budget deficit is expressed as a percentage of Gross Domestic Product (GDP). When government spending exceeds income, it will cause the deficit to the nation, and specifically, the budget deficit will give an impact to stock market. This is because a prolong budget deficit will trigger the bad sentiment to the market participant about the country fiscal sustainability. Therefore, this negative sentiment will trigger a portfolio rebalancing by selling the Malaysian asset in particular the stocks.

(iv) Interbank of rate (IBOR)

Overnight interest rate or IBOR serves as a tool to demonstrate the core signal of monetary policy and the target rate of the daily liquidity operations of Central Bank of Malaysia. Therefore, any changes in the core of monetary policy will be indicated by a change in the level IBOR and act as the main reference rate in determining other market interest rates. Thus, if the interest rates rise, then the share price will fall and changes in interest rates will affect the stock returns.

(v) Inflation

According to Feldstein (1980), an increase in inflation rate will not cause a decrease in share price. Therefore, in this study, the expected relationship between stock returns and inflation is positive.

(vi) Economic freedom Index

It is an index that reflects the degree of economic freedom a country. This index is given in percentage, where the higher the percentage, the freer the economic activity of a country. This information was obtained from a recognized international body called the Heritage Foundation.

(vii) Leverage

Firm financial leverage also plays an important role as a risk factor in explaining the equity returns. For example, firms with a higher leverage (higher debt-equity ratio) are likely to experience a greater price decline because of worries about the firms’ possible inability to make interest and loan payments, which may lead to bankruptcy (Wang et al., 2009).

(viii) Liquidity
Liquidity ratio is measured as liquid assets (LIQ) divided by total assets. Liquid assets comprise total cash plus marketable securities. The liquidity has been found to be an important factor in explaining the stock returns. As argued by Wang et al. (2009), investors favour the stocks of firms with larger cash holdings over cash-constrained firms because a high liquidity level indicates that the firm is better able to meet its maturing obligations. In fact, firms with higher liquid assets are less prone to bankruptcy because higher cash holdings reduce the probability that a cash shortage will force the firm into default. Therefore, we predict a positive sign for the liquidity ratio upon firm equity returns.

**AUGMENTED FAMA AND FRENCH THREE FACTOR MODEL**

In investigating the impact of macroeconomic variables and economic freedom on GLC’s stock returns, this study has augmented Fama and French (1992, 1996) three factor model. The standard Fama-French model can be represented as follows:

$$R_{it} - RF_t = \alpha_i + \beta_1[RM_t - RF_t] + \beta_2(SMB_t) + \beta_3(HML_t) + \epsilon_{it}$$  \hspace{1cm} (4)

where $R_{it}$ is the return on asset $i$ in period $t$, $RF_t$ is the risk-free rate, $\beta_1$ is the coefficient loading for the excess return of the market portfolio, $\beta_2$ is the coefficient loading for the excess average return of portfolio with small equity class over portfolios of big equity class, $\beta_3$ is the coefficient loading for the excess average returns of portfolio with high book-to-market equity class over those with low book-to-market equity class, and $\epsilon_{it}$ is the error term for asset $i$ at time $t$.

In order to investigate the role of macroeconomic variables, economic freedom and firm-specific variables on GLC’s stock returns, the baseline augmented Fama and French (1992, 1996) three factor model can be represented as follows:

$$R_{it} = \alpha_0 + \beta_1(RM_T) + \beta_2(SMB_t) + \beta_3(HML_t) + \beta_4IR_t + \beta_5BD_t + \beta_6I_t + \beta_7DR_t + \beta_8EF_t + \beta_9Lev_{it} + \beta_{10}Liq_{it} + \epsilon_{it}$$  \hspace{1cm} (5)

where $R_{it}$ is the stock return, $\alpha_0$ is the intercept, $\beta_1\ldots n$ is the value of coefficient variables, $RM_T$ is the excess market return, $SMB_t$ and $HML_t$, respectively are Small minus Big (size ME) and High minus Low (ratio of book value to market equity), IR is the international market return (SP 500 index), BD represents the budget deficit (% of GDP), I is the inflation rate, DR is the domestic interest rate (IBOR), EF is the index of overall economic freedom, while Lev and Liq. respectively represents leverage and liquidity.

4. **Results and Discussion**

Table 1 report an estimation results of static panel data using a fixed effect and random effect model for the estimation of the determinants of GLC’s equity return. As can be seen in Table 1, the value of $R^2$ which is 0.436 indicates that the explanatory variables have explained 44% of the changes in GLC’s equity-return. Based on the fixed effects and random effect model, the result showed that the coefficients of three-factor model which is domestic market return (RM) and SMB are positive, while HML is negative and these three variables are statistically significant in affecting stock returns of GLCs. Specifically, for the fixed effect model, the one percent increase in the $R_M$(market return) lead to an increase GLC’s equity return by 1.4%, while based on random effect model, the one percent increase in the $R_M$(market return) lead to an increase 1.37% of the GLC’s stock return.

**TABLE 1: Static Panel Data Estimation**
<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed Effect</th>
<th>Random Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>$R_M$</td>
<td>1.40</td>
<td>1.372</td>
</tr>
<tr>
<td></td>
<td>(2.47)**</td>
<td>(2.45)***</td>
</tr>
<tr>
<td>SMB</td>
<td>0.018</td>
<td>0.017</td>
</tr>
<tr>
<td></td>
<td>(3.33)***</td>
<td>(3.06)***</td>
</tr>
<tr>
<td>HML</td>
<td>-0.013</td>
<td>-0.013</td>
</tr>
<tr>
<td></td>
<td>(-1.63)*</td>
<td>(-1.71)*</td>
</tr>
<tr>
<td>IR</td>
<td>-0.525</td>
<td>-0.530</td>
</tr>
<tr>
<td></td>
<td>(-2.55)***</td>
<td>(-2.56)***</td>
</tr>
<tr>
<td>BD</td>
<td>-0.673</td>
<td>-0.655</td>
</tr>
<tr>
<td></td>
<td>(-3.49)***</td>
<td>(-3.46)***</td>
</tr>
<tr>
<td>I</td>
<td>0.170</td>
<td>0.168</td>
</tr>
<tr>
<td></td>
<td>(1.10)</td>
<td>(1.10)</td>
</tr>
<tr>
<td>DR</td>
<td>0.575</td>
<td>0.551</td>
</tr>
<tr>
<td></td>
<td>(1.21)</td>
<td>(1.17)</td>
</tr>
<tr>
<td>EF</td>
<td>2.212</td>
<td>2.129</td>
</tr>
<tr>
<td></td>
<td>(2.83)**</td>
<td>(2.77)**</td>
</tr>
<tr>
<td>Lev</td>
<td>-0.762</td>
<td>-1.097</td>
</tr>
<tr>
<td></td>
<td>(-0.36)</td>
<td>(-0.76)</td>
</tr>
<tr>
<td>Liq</td>
<td>-0.102</td>
<td>-0.092</td>
</tr>
<tr>
<td></td>
<td>(-1.12)</td>
<td>(-1.02)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.4363</td>
<td>0.4361</td>
</tr>
</tbody>
</table>

Total of Observation: 204
Total of group: 16

Reject Null Hypothesis

Notes: All models are estimated using Fixed Effects Model and Random Effects Model. The variables are defined as follows: $R_M$ = Market return, SMB = Small minus Big, HML = High minus Low and IR = International rate, BD = budget deficit, I = inflation, DR = domestic rate, EF = Economic freedom, Lev = Leverage and Liq = Liquidity. Figures in parentheses are t-statistics. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

For macroeconomic variables, the budget deficit is statistically significance in influencing the GLC’s equity return, in which a one percent increase in budget deficit will cause a decrease in GLC equity-return by 0.68 percent (fixed-effect model), and 0.66 percent in random effect model. These findings have supported by Darrat and Brocato’s (1994) and Ewing (1998) who found that a significance and negative relationship between stock returns and budget deficit. Monetary policy variables (interest rate policy) are also statistically significant and have a negative relationship with the GLC equity return.

Factors of economic freedom (EF) also shows a positive correlation with GLC’s stock returns, in which a 1% increase in EF will lead to an increase the GLC’s stock returns by 2.2%. The results obtained are seen to coincide with the study by the Heritage Foundation which states that when the economic freedom of country was in the higher level, then the role of government is seen to be on the wane. This shows that the reduction of government involvement will enhance the performance of stock returns of GLC. Therefore, to achieve this goal, the government should increase the country economic freedom in terms of rule of law (property right and freedom from corruption), limited role of government (fiscal freedom and government spending), regulatory efficiency (business freedom, labour freedom, and monetary freedom) and open market (trade freedom, investment freedom and financial freedom). Macroeconomics variable (inflation) and firm-specific variables (leverage and liquidity) are seen not statistically significant in affecting GLC’s stock returns. This findings signal that the performance of GLC equity return is not affected by domestic inflation rates and GLC’s financial variables namely leverage and liquidity.
In static panel data model, the selection of the best model either fixed or random effect is necessary. Therefore, the Hausman test can be used in choosing the most favoured model. The results of the regression carried out revealed that the Fixed Effects Model is better than Random Effects Model. The null hypothesis (H0) is the Hausman test model for Random Effects (RE) is better than the Fixed Effects Model (FE), while the alternative hypothesis (H1) is the opposite. The results showed that the fixed effects model is better because the results of this study have rejected H0, when the Prob > chi2 is (0.0000) of less than 0.05.

5. Conclusion

The empirical results revealed that the fiscal policy variable namely budget deficit, and economic freedom have a significance impact on the GLC’s equity returns. However, monetary policy variable namely interest rates policy has no significant effect on the GLC’s equity return. In addition, the domestic market return, small minus big (SMB) and the high minus low (HML) are also statistically significance in influencing the GLC’s equity return. This findings implied that the investor and the management of GLC’s need to observe the macroeconomic policy, in particular fiscal policy, the economic freedom, the domestic market return and the GLC’s specific variables in managing the risk and the return.

This study has provided several policy implications to the market participant in particular to the investor, the government, and the management of the GLC’s. For the investor, in managing their risk and return of their portfolio, they need to observe the macroeconomic policy, in particular the fiscal policy, the domestic market return, and the country economic freedom. This is important because by observing these variables, they can make an accurate decision either to buy or to sell their shares. Second, for the government as major shareholders of GLC, understanding the main factors that may influence the movement of GLC’s share prices is necessary in planning the proper strategy to stabilize the GLC’s share prices. This is very important because the GLC’s shares play a dominant role in the Malaysian stock market. Third, for the management of the GLC’s, by observing the main factors that influence the performance of their share prices, they can plan their new investment strategy, restructuring their management board and diversify their investment project. This strategy is very important in stabilizing their future cash flow and share prices. Fourth, since the economic freedom play a dominant role in influencing GLC's equity return, therefore the government need to give more freedom to the GLC's in managing their business activity without government intervention.

Reference


