Measuring the systematic risk factors in Malaysia stock market returns: A principal component analysis approach

ABSTRACT

Stock market return was used as a leading indicator that measures the strength of the economy. The performance of stock market can be measured by stock market returns. However, the uncertainty in the stock market will cause systematic risk for investors. The aim of the paper to measures the systematic risk factors in Malaysia stock market. The study makes used of principal components analysis to construct a Kuala Lumpur Composite Index (KLCI) that serves a proxy variable of Malaysia stock market return and macroeconomic variables as sources of systematic risk factors. This paper used Malaysian time series data covering a period from January 2009 to December 2019. The study gives insight for understanding the components in the principal component analysis of the correlation matrix of a group of risks may contain useful financial information by identifying highly correlated pair or larger groups of risks. The results of the study can be a benefit to investor's applies to manage their portfolio.