

Market Sentiment and Stock Return Volatility in Malaysia: Evidence using the GARCH-X Model

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Abstract: Market sentiment has been found to be one of the key determinants of stock market volatility, especially in globally interconnected economies such as Malaysia. With the growing influence of retail investors operating in advanced digital trading environments, understanding the role of sentiment in shaping market behavior has become more critical. Despite existing regulatory frameworks designed to protect investors from manipulation and misconduct, current surveillance practices still rely on traditional indicators such as price and trading volume. These indicators may not fully capture how the market works in a real investment setting. This study addresses a critical gap by empirically examining the effects of market sentiment (measured through the Consumer Sentiment Index) along with other macroeconomic variables on stock return and its volatility in Malaysia. Using the GARCH-X Model on stock return data from January 1990 until January 2025, we find that CSI has a positive and significant relationship with stock returns, indicating that Malaysia's stock market returns were more strongly influenced by investor confidence than by geopolitical events and monetary policy factors. In addition, the results from the GARCH-X model show that the stock market does not always move in line with the macroeconomic fundamentals in the short term. Additionally, the model suggests that in the short term, stock returns become more volatile during periods of market instability, with volatility amplifying when new shocks emerge. However, in the long run, the market tends to adjust and return to equilibrium. These findings underscore the need for regulatory authorities to enhance real-time volatility monitoring tools and promote better access to structured, legal, and accessible data sharing in ensuring effective market responses during periods of crisis or adverse global events.

Keywords: *Market Sentiment, Malaysia Stock Market, GARCH-X Model, Stock Return Volatility*

1. Introduction and Background

As stipulated in the Capital Market Stability Review 2024 by the Securities Commission Malaysia (SC), market sentiment is one of the key drivers that will navigate the volatility within the domestic capital market, as a result of the interconnectedness of the global markets. Understanding how collective market sentiment can determine the level of stock market volatility is important to allow for better interpretation of price changes and the behavioral patterns of the underlying volatility. To date, there have been three regulations and frameworks within the Malaysian stock market context that address market sentiment by targeting the behaviors and practices that shape it. These frameworks include the Section 175-False or Misleading Appearance of Active Trading, Section 176-Stock Market Manipulation, and Section 177-Making False or Misleading Statements of the Capital Markets and Services Act 2007 (CMSA) that prohibit investors from engaging in stock market manipulation through pump and dump schemes that are carried out to artificially increase the value of the stock by misleading investors. These frameworks emphasize the essential function of sentiment regulation in preserving market integrity and stability, particularly in an increasingly globalized economic landscape.

In this context, the size of Malaysia's equity market underscores the importance of market sentiment as a determinant of stock market behavior. As of April 2025, the total market capitalization of securities listed in Bursa Malaysia amounted to RM 1,878.46 billion (Securities Commission Malaysia, 2025), reflecting the substantial value at stake. Recent studies conducted by Kong and Tang (2024) indicate that the sentiment factor plays a significant role in IPO shares' performance in Malaysia. When sentiment is higher, more investors (informed and less informed investors) are enthusiastic about IPO in general, and not only subscribing to high-

quality IPOs only. In addition, Kim and Ha (2010), who studied the effect of market sentiment on stock market anomaly, have found that anomalies become stronger or more profitable when investors in the market are overly optimistic. These findings suggest that shifts in market sentiment can substantially influence market volatility, mispricing, and returns. The implications may be more crucial, particularly in segments with more foreign investor shareholdings, such as the financial sector. Sudden shifts in investor mood can result in large equities selling off, which can drag down overall stock market performance.

Bursa Malaysia's Market Surveillance focus is to ensure the market operates in a fair and orderly manner to promote efficient price discovery and investor protection (Bursa Malaysia, 2025). If there are any significant and unexplained price or volume movements in the stock market, Bursa Malaysia Securities will issue an unusual market activity (UMA) query to the suspected publicly listed company to prompt public disclosure of information that could explain such trading activities. These actions imply that Bursa Malaysia and the SC rely on traditional indicators, such as sudden spikes in price and abnormal trading volume, in triggering UMA queries. It lacks sentiment-sensitive regulation in the current tech-driven retail investors' behavior. Thus, empirical research on market sentiment is essential to reform the existing surveillance, policy tools, and investor protection framework.

With the growing effect of digital technologies, retail investors have participated more actively and are increasingly guided by online platforms in making investment decisions. Even though the Capital Markets and Service Act (CMSA) requires accurate disclosures from publicly listed companies, such disclosures do not fully reflect the impact of irrational investor behaviors, which include speculative bubbles and fear-of-missing-out (FOMO) behaviors. These kinds of behaviors can interfere with stock market stability and lead to suboptimal investment outcomes (New Straits Times, 2025). The objective of this study is to empirically examine the effect of market sentiment, as proxied by Consumer Sentiment Index (CSI), along with selected macroeconomic variables (geopolitical risk, foreign portfolio investment, and market interest rate) on stock market volatility in the Malaysian stock market. By including the sentiment-based behavioral indicators into the stock return volatility model using the GARCH-X approach, this study introduces structured empirical evidence on how non-technical economic sentiment shapes equity pricing and trading behaviors. The rest of this article is structured as follows: Section 2 reviews relevant literature, Section 3 outlines the main methodology, Section 4 presents the results, and Section 5 discusses implications and concludes.

2. Literature Review

Market Sentiment and Stock Market Volatility

Attitudes, expectations, and sentiment refer to the psychological mood of consumers. These variables are determinants of an individual's actions in buying and selling decisions. Besides the supply side, the shift in demand level in response to these actions also determines the price level of goods and services that we pay today. Similarly, in the stock market, the collective behaviors and actions by investors are what drive the stock prices and volatility to change. Recent studies by Xiao, Jiang and Zhang (2024) have shown that investor sentiment helps to reduce the negative impact of policy uncertainty. An optimistic investor mood can help to moderate the downside risk from policy-related shocks.

In the current digital environment, the types of sentiment possessed by investors may be directly influenced by the way media frames certain events or crises. A study by Li et al. (2024) found that the tone of media reporting plays a significant role in shaping market sentiment. The study covered the COVID-19 period by investigating how COVID-19 news significantly spills over to stock market volatility. The risk spillovers may be more significant for the Asia-Pacific stock market since the countries exhibit strong economic interconnectedness with each other, which may increase stock market sensitivity (Sun et al., 2025). The vulnerability of one market can transmit instability to another market through the economy and financial network.

Recent studies on the effects of market sentiment on stock market volatility have concentrated on the United States and China markets. The majority of the findings posited that sentiment significantly affects the realized return and volatility (Abdelmalek, 2022), and its impact is stronger during crisis periods (Hsu et al., 2021) and bullish phases (Xie et al., 2023). When facing a complex and uncertain economic environment, people are often

unable to deal with the information rationally. Emotion, cognitive bias, and overconfidence are likely to lead to irrational, bad decisions (Ruan et al., 2018).

Geopolitical Risk, Foreign Portfolio Investment, and Interest Rates and Market Volatility

Geopolitical events such as wars, diplomatic tensions, or trade disputes create uncertainty and heighten investor risk aversion. According to (Caldara & Iacoviell, 2022), geopolitical risk (GPR) is “the risks associated with wars, acts of terrorism, and tensions between states that affect the normal and peaceful course of international relations”. Studies show that geopolitical risk can trigger capital outflows, currency depreciation, and heightened volatility, especially in emerging markets (Lai et al., 2023). GPR often drives “bad volatility” during periods of market downturns or distress, with its effect being particularly strong at return quantiles below the mean or median, indicating its role as a driver of “bad volatility” during periods of market downturns or distress. This can cause a massive sell-off of stocks by investors (Lamine & Zribi, 2024)

With the recent outbreak of the Iran-Israel military conflict in 2025 and the U.S. and China Trade Wars, global geopolitical risks experienced intense turbulence once again. As a result, investor sentiment has turned pessimistic, and cross-border capital flows have continued to intensify. The mounting geopolitical risks have exerted significant pressure on the real economy and financial systems, leading to substantial fluctuations in global stock markets (Pan et al., 2023; Wang, 2025). The effects of GPRs on stock returns tend to weaken over time, while their impact on volatility tends to strengthen, suggesting persistent risks for investors.

Foreign portfolio flows are highly sensitive to geopolitical shifts and investor sentiment. GPRs may cause withdrawals from emerging economies, while investors seek safer, more stable markets (Wang, 2025). Earlier empirical studies also confirm that foreign investment inflows are significantly affected by sentiment spillover among investors (Luong, 2025), monetary policies (Loang et al., 2024), a country's income level and trade openness (Batala et al., 2021). These factors may also cause a significant shift in stock market performance (Ghulam et al., 2021) since they are among the key drivers for high foreign direct investment. However, the impact of foreign investments on the stock market may vary based on the types and investment weight of institutional investors that invest in the domestic stock market. It was found in the past that, when domestic institutional investors' inflows are higher than foreign institutional investors' inflows, the foreign flows will have little impact on stock market volatility (Aggarwal et al., 2022).

Besides that, the market interest rate is also crucial in determining the stock market performance and stability. The evidence is mixed. At one end, an increase in interest rates may result in lower stock performance. This is because rising interest rates increase the financing cost of companies, leading to a decrease in net profit, thereby making a negative impact on the stock price. At the same time, compared with stock, fixed-income financial products such as deposits and bonds become more attractive. Investors may shift money into these fixed-income products, causing stock market turnover to shrink and share prices to fall. Another contradicting view suggests that a lower interest rate may lead to lower share performance. Findings reported in Mohnot et al. (2024) show that a lower interest rate, which usually results from central bank actions to expand money supply, may lead to a lower future share price. However, this may be particularly true if the lowering of interest rates is done as a policy response to deteriorating economic conditions, which may cause the investors to perceive this as a negative signal about future earnings. Sometimes, firms may not take advantage of the lower borrowing costs when corporate confidence is low. Given all these past findings, incorporating geopolitical risk, foreign portfolio investment, and market interest rate alone may not provide a conclusive finding on how the stock market performs. Incorporating sentiment indicators into the volatility model may provide a better overview of how these variables are tied together in explaining the changes in stock market volatility in emerging markets.

Integrating Sentiment and Macroeconomic Variables in Volatility Modeling

Given the mixed findings on the individual effects of GPR, FPI, and interest rates, a more comprehensive model is needed. Recent research findings have shown the importance of investor sentiment as a critical factor that determines stock market volatility, especially in emerging markets. Studies from Paramanik & Singhal (2020) and Ph & Rishad (2020) indicate that sentiment indicators significantly influence stock market volatility in the Indian context, implying that market behavior cannot be fully explained by traditional economic variables alone. In addition, Xie et al. (2023) empirically show that investor sentiment has a notable and asymmetric

impact on stock return volatility during periods of market optimism or distress. These evidences underline the value of incorporating behavioral signals into volatility modeling due to the predictive power of sentiment analysis in forecasting market volatility (Deveikyte et al., 2022). Few studies integrate sentiment indicators such as the CSI alongside key macroeconomic variables like geopolitical risk, foreign portfolio investment, and market interest rates. Therefore, this study aims to fill this gap by empirically examining the impact of market sentiment and selected macroeconomic factors on stock market volatility in Malaysia, using the GARCH-X approach.

3. Research Methodology

The ARCH methodology, led by Engle (1982), suggests a method for measuring uncertainty if it is serially correlated. The empirical methodology used in this study extends the ARCH model. Let ξ_t be a model's prediction error, b a vector of parameters, and x_t a vector of predetermined explanatory variables in the equation for the conditional mean.

$$y_t = x_t b + \xi_t \quad \xi_t | I_{t-1} \sim N(0, h_t) \quad (1)$$

Where; h_t Is the variance of ξ_t Given information I at time $t-1$. The GARCH specification, as developed by Bollerslev (1986), defines h_t As:

$$h_t = u_0 + \sum_{i=1}^p A_i h_{t-i} + \sum_{j=1}^q B_j \xi_{t-j}^2 \quad (2)$$

Where; u_0 , A_i , and B_i Being nonnegative parameters. The parameter u_0 Serves as the minimum volatility value, which prevents the variance from going lower than this level (Staikouras, 2006). Based on equation (2), the conditional variance h_t It is a linear function of its own lagged p conditional variances, and the lagged q of squared residuals. If the $\sum A_i + \sum B_j = 1$, Then the GARCH specification turns into an integrated GARCH (IGARCH) process, indicating that the current shocks persist indefinitely in conditioning the future variance as indicated in Engle and Bollerslev (1986) and Lamoureux and Lastrapes (1990).

Following Apergis and Rezitis (2011), this study used the GARCH-X model. This model considers the effects of the short-run deviations on the conditional variance. The equation (2) then becomes:

$$h_t = u_0 + \sum_{i=1}^p A_i h_{t-i} + \sum_{j=1}^q B_j \xi_{t-j}^2 + \gamma_1 C_{t-1}^2 \quad (3)$$

In terms of persistence, for the GARCH-X model to be stationary, the $\sum A_i + \sum B_j < 1$. We also need $u_0 > 0$ and all A_i and $B_j \geq 0$ for $i=1, \dots, p$ and $j=1, 2, \dots, q$. $i, \dots, j$

The short-run deviations are proxied by the squared and lagged error-correction term. C_{t-1}^2 . This term, known as the error correction term (ECM_{t-1}^2), represents the residuals from a cointegrating vector that associates stock returns and identified macroeconomic factors. The parameter γ_1 explains the effects of short-run deviations between the macroeconomic variables from the long-run cointegrated relationship on the conditional variance of the residuals for the stock returns equation. If the value of γ_1 is positive, it means that stock returns become more volatile and possibly less predictable as the deviation of stock returns from certain macroeconomic factors gets larger. The presence of such deviations in the conditional variance may be exploited to get more precise and reliable confidence intervals in forecasting stock returns.

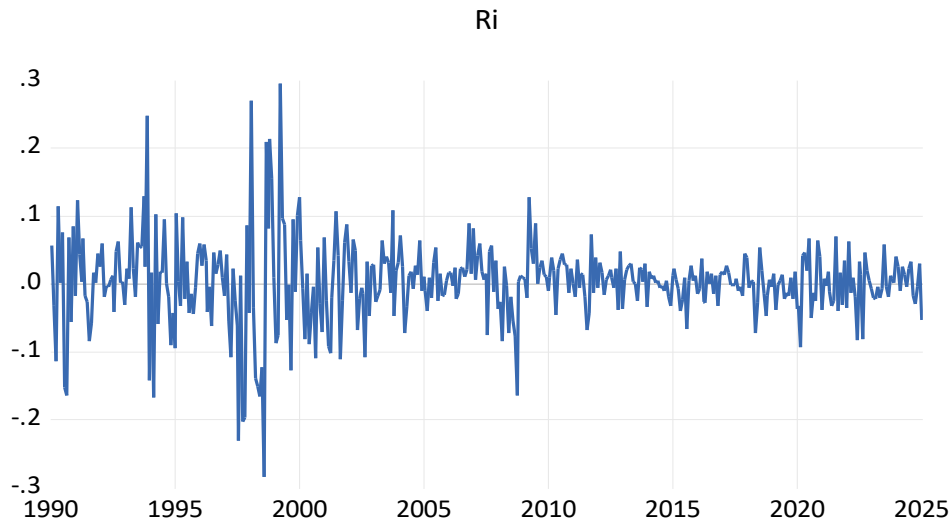
4. Results

Data: The empirical analysis is carried out using monthly data on KLCI index returns, and monthly data on geopolitical risk level proxied by geopolitical risk index (GPR), market interest rate measured by 3-month interbank interest rate (Int), foreign portfolio investment (FPI), and market sentiment (MS). The sample period is from January 1990 until January 2025, and is obtained from the Refinitive Workspace database, and Caldara & Iacoviello (2022) computed the GPR index. GPR index is defined as the frequency of specific keywords related to geopolitical tensions in major international newspapers. A higher GPR index is contributed by a higher frequency of keywords such as wars and military tensions, terrorists' threats, political instability, and threats of war in news coverage. The consumer sentiment index represents the series of surveys conducted on households in Peninsular Malaysia to gauge consumer spending trends and sentiments. A higher index value

indicates higher consumer confidence about the current and future state of the economy. The analysis of the data was conducted using E-views 12.

Volatility Patterns of Stock Returns: The monthly KLCI index closing price is used in this study. Figure 1 presents the monthly log returns for the sample period. These preliminary results show several spikes in volatility in multiple global events. The first spike in volatility during the sample period was observed during the 1997-1998 Asian Financial Crisis and the 1998-2000 dot-com bubble period. After these periods, the volatility started to decrease over time, before it went through another volatility increase in the year 2008-2009, corresponding to the Global Financial Crisis at that time. Subsequently, the Covid-19 pandemic in early 2020 exhibited a modest spike in volatility, but not as extreme as during the prior crises.

Figure 1: Monthly log returns of KLCI Index from Jan 1990 to Jan 2025



Descriptive Statistics: Table 1 displays the summary of the mean and distribution of monthly returns for the KLCI index from January 1990 to January 2025. The mean monthly return of 0.23%, with a general annual return of 2.88% indicates that the Malaysian stock market in general is showing a consistent long-term growth. The maximum and minimum returns of 29.44% and -28.46%, respectively, are consistent with the major important events related to financial crises and non-financial crises identified earlier. The Jarque-Bera test indicates that the log returns are not normally distributed, and this could be attributed to the high kurtosis value of 7.7987 with fat tails and a higher peak returns graph, which signifies more frequent extreme values. Given these findings, this study employs the GARCH-X model in modelling time-varying volatility in relation to the identified regressors.

Table 1: Mean and Distribution of Monthly Returns of the KLCI index

VARIABLE	Estimates
Mean	0.0023
Maximum	0.2944
Minimum	-0.2846
Standard deviation	0.0606
Skewness	-0.0202
Kurtosis	7.7987
Jarque-Bera	403.023
p-value	0.0000
Observations	420

Unit Root Tests: The Augmented Dickey-Fuller (ADF) test proposed by Dickey and Fuller (1981) is used to assess the stationarity of the KLCI returns (R_i) and the regressors (GPR, Int, FPI, CSI). Table 2 reports the results. At the level, the ADF test results indicate that R_i , GPR, and CSI are stationary at level $I(0)$ at the 5% significance level. On the other hand, Int and FPI are not stationary at the level but become stationary after first

differencing. This suggests that Int and FPI are integrated of order $[I(1)]$. In modelling the impact of identified exogenous variables on the volatility of stock returns in the Malaysian market, all variables are regressed at first difference.

Table 2: Augmented Dickey-Fuller (ADF) test Results

Variables	Level/First Difference	Test Statistic	P-values
Ri	Level	-11.9727***	0.0000
GPR	Level	-15.2306***	0.0000
Int	Level	-2.39612	0.1436
FPI	Level	-2.7755*	0.0634
CSI	Level	-3.0555**	0.0312
Ri	First difference	-13.6129***	0.0000
GPR	First difference	-21.4435***	0.0000
Int	First difference	-10.4656***	0.0000
FPI	First difference	11.0312***	0.0000
CSI	First difference	-14.0660***	0.0000

(***, **, and * indicate significance at 1%, 5% and 10% levels, respectively)

Error Correction Model (ECM): The Engle-Granger two-step method was used to estimate the ECM for the relationship between Ri, GPR, Int, FPI, and CSI. The first-stage long-run regression confirmed cointegration, as the residuals (μ_t) were found to be stationary using the Augmented Dickey-Fuller (ADF) test with a p-value less than 0.01. The second-stage ECM regression (as presented in Table 3) also yielded a significant negative coefficient on the lagged residual (-0.98, p-value<0.01), confirming the rapid adjustment toward the long-run equilibrium. In the short run, none of the variables, however, has a statistically significant effect on Ri. The estimated model satisfies certain diagnostics such as absence of serial correlation (LM test), absence of misspecification (RESET), and absence of heteroscedasticity. The Jarque-Bera test rejected the null hypothesis of normality of residuals (p-value<0.01). This is common in financial data, which often shows skewness and excess kurtosis. The ARCH LM test found no significant ARCH effects from lag 1 to 7 (p-value>0.05). However, a weak ARCH effect was detected at lag 8, indicating a mild delayed volatility clustering. Given the nature of financial return series, this study proceeds with GARCH (1,1) modeling to account for potential time-varying volatility.

Table 3: Estimated Error Correction Model for KLCI Returns (Ri)

Variable	Coefficient	t-Stat	Probability
d(GPR)	-0.004514	-0.135568	0.8844
d(Int)	-0.0016766	-0.869071	0.3858
d(FPI)	1.25E-13	0.176112	0.8604
d(CSI)	0.000384	1.349987	0.1784
μ_t	-0.981376***	-14.45868	0.0000
Diagnostic Test Results			
R ²	0.491651		
LM test	0.184686 (0.8315)		
RESET test	0.537404 (0.4643)		
Normality	47.85437 (0.0000)		
Heteroscedasticity	1.735875 (0.1276)		
ARCH (1)	1.149186 (0.2849)		
ARCH (8)	2.417801 (0.0162)		

a. ***, **, and * indicate significance at 1%, 5% and 10% levels, respectively

b. d(GPR), d(Int), d(FPI), and d(CSI) are the first differences of GPR, Int, FPI, and CSI variables, respectively.

c. For LM, RESET, Heteroscedasticity, and ARCH(p), results for F-stat (p-value) were reported.

d. Normality test results include the Jarque-Bera statistic and p-value in parentheses.

GARCH-X Model: The conditional mean equation of the GARCH-X model was specified as a function of past R_i and selected macroeconomic variables, and results are presented in Table 4. The AR(1) term was found to be statistically insignificant ($p\text{-value} > 0.05$), suggesting weak evidence of return persistence. Among the independent variables, the consumer sentiment index (CSI) had a positive and significant impact on KLCI returns (0.000269, $p\text{-value} < 0.01$), implying that improved consumer sentiment tends to increase stock market returns. Contrarily, the effects of geopolitical risk (GPR), market interest rate (Int), and foreign portfolio investment (FPI) were not statistically significant at the levels. These findings indicate that short-term changes in stock market returns in Malaysia are more sensitive to market confidence than to geopolitical or monetary influences during the study period. In addition, the use of the GPR index may not truly reflect the actual political risk index in Malaysia since the original GPR index used in this study is based on global newspapers, mostly U.S.-based sources such as the Wall Street Journal and Washington Post.

Table 4: Mean Equation Estimates from GARCH-X(1,1) Model

Variables	Coeff.	Std. error	Prob.
Constant	-0.008576	0.016135	0.5951
GPR	-0.006561	0.065396	0.9201
Int	-0.005044	0.003525	0.1524
FPI	2.00×10^{-13}	3.36×10^{-13}	0.5518
CSI	0.000269	0.000103	0.0089
AR(1)	-0.036937	0.069329	0.5942

(***, **, and * indicate significance at 1%, 5% and 10% levels, respectively)

The GARCH-X (1,1) model is identified, and the results are presented in Table 5. The ARCH term ($\alpha = 0.372171$, $p\text{-value} < 0.05$) and GARCH term ($\beta = 0.770326$, $p\text{-value} < 0.01$) are statistically significant, confirming the existence of volatility clustering in the stock market return series.

Table 5: Variance Equation Estimates from GARCH-X(1,1) Model

Variables	Coeff.	Std. error	Prob.
Constant	0.000141***	0.00005	0.0064
ξ_{t-1}^2	0.372171***	0.12785	0.0036
h_{t-1}	0.770326***	0.07702	0.0000
ECM_{t-1}^2	-0.173474***	0.05740	0.0025

(***, **, and * indicate significance at 1%, 5% and 10% levels, respectively)

The coefficient of ξ_{t-1}^2 captures how much recent shocks in stock market returns affect volatility, while the coefficient of h_{t-1} captures how much past volatility carries over into today. In terms of volatility persistence, for the GARCH-X model to be stationary, the coefficient of Constant must be greater than 0. This is to ensure that the variance is always positive. Besides, the sum of coefficients for ξ_{t-1}^2 and h_{t-1} must be less than 1. In Table 5, it is shown that the sum of these parameters is slightly above 1 ($0.372171 + 0.770326 = 1.142497$), indicating a high level of volatility persistence. The model shows that market volatility tends to be persistent after a shock in stock returns or even grow over time. However, since the lagged error correction term (ECM_{t-1}^2) is significant, it contributes to long-run stability.

The short-run deviations are denoted by the ECM_{t-1}^2 . If the coefficient (γ_1) is positive, this implies that stock market returns become more volatile and possibly less predictable as the deviation of stock prices from certain macroeconomic factors gets larger. This particularly happens because big shocks or uncertainties in the stock market can make investors panic, causing higher price volatility. Results obtained in this study show that the ECM_{t-1}^2 carries a negative and significant coefficient ($\gamma_1 = -0.173474$, $p\text{-value} < 0.01$), suggesting that larger deviations from the long-run equilibrium are associated with reduced conditional volatility. This result also means that, when the market becomes more uncertain, the Malaysian stock prices become less volatile. Various reasons could contribute to this finding. The quick actions through various policy responses taken by the Bank Negara Malaysia may help to calm the market before things get too far off track, added to a resilient Malaysian financial market in absorbing shocks that arise in the market.

5. Conclusion and Policy Implications

This study investigated how volatile stock returns are in the Malaysian market. It also explores whether short-run changes in the relationship between stock market returns and important economic factors such as geopolitical risk level, market interest rates, foreign portfolio investment, and consumer sentiment might help to explain or cause the changes in stock market returns volatility. The empirical analysis used the methodology of the GARCH-X model. Short-run deviations were proxied by the EC term from the cointegration relationship between KLCI returns (R_i) with the GPR, Int, FPI, and CSI variables. The results from a GARCH-X (1,1) model reveal that short-run deviations (from long-run relationships between KLCI returns and macroeconomic variables) have a significant and negative impact on the volatility of stock returns. While volatility persistence ($\alpha + \beta$) is more than 1, suggesting that shocks will increase volatility even more in the future, causing it to grow. However, the inclusion of a significant lagged error correction term (ECM_{t-1}^2) in the variance equation contributes to stabilizing volatility in the long run. This suggests that short-run deviations from the long-run equilibrium between KLCI returns and macroeconomic variables are partially corrected over time, thereby offsetting the increased volatility following the shocks.

Since the volatility is highly persistent, early intervention is needed in order to restore balance in the stock market. Regulator bodies such as Bank Negara Malaysia (BNM) and the Securities Commission (SC) Malaysia should continue supporting sound monetary policy while enhancing real-time volatility monitoring systems. This includes monitoring global events and always being ready to deploy foreign exchange mechanisms and liquidity tools in mitigating sharp movements and maintaining orderly trading conditions in the Malaysian stock market. This could result in positive and stable market sentiment, which will subsequently lead to higher stock market returns.

Furthermore, there should be better access to data with structured, legal, and accessible data sharing, to enable the timely dissemination of economic, corporate, and policy information. This will allow investors to make better-informed decisions, lowering the possibility of mispricing and speculation in response to global shocks. Taking into account the significance of the consumer sentiment factor in determining the stock market returns, the government should pay close attention to catering to consumer confidence during fiscal and monetary policy planning, with suitable stimulus to help stabilize the economy and the financial market.

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