

ABSTRACT

Using the Pearson correlation analysis, factor analysis and regression analysis, this paper examines the impact of macroeconomic variables such as money supply, nominal interest rate, inflation, real activity and international reserves flow on the performance of the Kuala Lumpur Stock Exchange (KLSE). Pearson correlation analysis was used to determine the nature of the relationship between the macroeconomic variables and the Kuala Lumpur Composite index (KLCI). Factor analysis was used to identify the subset of variables accounting for movement in the **KLCI** while regression analysis was used to determine the amount of the variation in the **KLCI** explained by the macroeconomic variables. The major findings of this study are: (1) there is a direct relationship between money supply, inflation, real activity and international reserves flow (2) there is an inverse relationship between the nominal interest rate and the **KLCI** but this inverse relationship was not significant (3) money supply, consumer price index and industrial production moves before the Kuala Lumpur Composite Index (KLCI) while nominal interest rate and international ~~reserves~~ flow moves after the **KLCI** changes (4) International reserves flow in itself explain 59% of the variation in the **KLCI** followed by industrial production index (58%).