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THE IMPACT OF MALAYSIAN INDICES PERFORMANCE AND COVID19 PANDEMIC ON RAKUTEN INVESTMENT PORTFOLIO RETURN

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ABSTRACT
The global outbreak of the COVID-19 pandemic in early 2020 had far-reaching consequences on various aspects of the global economy, including financial markets. Stock indices across the world experienced significant fluctuations and volatility as investors grappled with the uncertainty and economic disruption caused by the pandemic. In Malaysia, the impact of the pandemic on stock market performance was particularly noteworthy, with the Malaysian indices witnessing substantial swings. This study investigates the impact of the performance of Malaysian indices and the COVID-19 pandemic on the returns of the Rakuten Investment Portfolio. It utilizes monthly data from January 2017 to December 2023 and employs a time-series analysis to explore these relationships. Our findings reveal a significant influence of Malaysian indices performance on the returns of the Rakuten portfolio, signifying that market trends largely shape the portfolio's performance. The study underlines the need for robust risk management strategies and diversification to mitigate the adverse effects of market volatility and global crises on investment portfolio returns.

JEL classification: *B17, C58, F31.*
Keywords: *Covid-19, Malaysian indices, pandemic, Rakuten investment portfolio.*

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1. INTRODUCTION

The global financial markets have witnessed significant volatility and uncertainty in recent years due to various factors, including the outbreak of the COVID-19 pandemic (Mazur, 2021; Udin, 2021; Li et al., 2022; Behera et al., 2023). These challenging times have not only disrupted the global economy but have also had a profound impact on investment portfolios across different regions. This study aims to explore the relationship between the performance of Malaysian indices, the COVID-19 pandemic, and the return of Rakuten investment portfolios.

Rakuten, a prominent multinational conglomerate based in Japan, offers a wide range of services, including e-commerce, fintech, and online investments. As with any investment portfolio, Rakuten's portfolios are susceptible to market fluctuations, both in domestic and international markets. In the context of Malaysia, the performance of local indices, such as the Kuala Lumpur Composite Index (KLCI), plays a crucial role in influencing investment decisions and subsequent returns. Moreover, the emergence of the COVID-19 pandemic in early 2020 has had a profound impact on global financial markets. The rapid spread of the virus, coupled with widespread lockdowns and travel restrictions, has disrupted businesses, supply chains, and consumer behavior worldwide (Donthu & Gustafsson, 2020). The financial markets experienced heightened volatility and significant declines, followed by a subsequent recovery driven by various factors such as government interventions and investor sentiment. The most recent crash was in 2020 when coronavirus occurred and spread worldwide. In just a week which is on 24 February 2020, the Dow Jones and S&P 500 had dropped 11% and 12% respectively, making it the largest drop in a week since the last stock market crash (DiLallo, 2022). As for Malaysia, the FTSE Bursa Malaysia KLCI dropped 6.2% after the government imposed a full lockdown (Mookerjee & Yap, 2021). Hence, FTSE Bursa Malaysia KLCI will continue under pressure as several headwinds will impede its prospects (Lim & Ikram, 2022). It is expected to continue to be challenging as interest rates, inflation, and the political overhang keep rising. With that in mind, will the Rakuten investment portfolio create a return for its investors? As Malaysia has entered the endemic phase, all economic sectors should have begun to recover. However, the stock performance would be still slower as other determinants also affect the performance of the stock market. In this study, the expected return for the Rakuten investment portfolio is significant. It will distinguish whether Rakuten's investment portfolio is profitable and whether the FTSE Bursa Malaysia KLCI and COVID-19 have an influence on it.

The purpose of this study is to investigate whether Rakuten's investment portfolio is profitable. Furthermore, investigate the impact of Malaysian Indices and COVID-19 on Rakuten's investment portfolio.

2. LITERATURE REVIEW

According to Gitman et al (2015), concentrating on adding large companies' stocks to a portfolio is much more profitable, due to its good performance, which minimizes risk, along with the securities having high cash, which means the transaction costs are lower since the main investors will buy these stocks, and due to the cutting-off state, subsequent investors will try to follow them quickly (Hassan & Hadi, 2022). Markowitz's portfolio theory which is a modern portfolio, says that the return and risk of individual securities differ from the return and risk of a portfolio composed of a set of financial instruments (Mangram, 2013). It can be explained when portfolio risks decrease as the number of securities in the portfolio increases. It implied that investors could avoid specific risks associated with individual companies by investing in more securities (Biswas, 2015). Acharya et al. (2021) conclude stock prices of banks with high ex-ante exposures and high ex-post drawdowns will decline more during the COVID-19 pandemic. Curto & Serrasqueiro (2021) suggested not all sectors and stocks are affected equally by COVID-19 in terms of return volatility. They say that some sectors such as information technology, consumer discretionary, telecom services, consumer staples, and energy must show statistically significant differences as they are essential needs even during a pandemic. The results of their paper show that the theory is true but with a few exceptions. The investment portfolio is a collection of financial investments like securities, bonds, commodities, cash, and cash equivalents, as well as closed-end funds and exchange-traded funds (ETFs).

According to Khalil & Salal (2022), there is a strong correlation between the size of the company and the return on the investment portfolio. The returns of large-sized companies are greater than the returns of small-sized companies. The study of Hassan & Hadi (2022) uses the Capitalism Assets Pricing Model (CAPM), cutting-off, and beta coefficient model to construct an investment portfolio from the common stocks chosen from the operating industrial companies in the Iraq stock exchange. As a result, the political and economic circumstances negatively affect the economic activity and the establishment operating in the sector. Cutting off rate plays a distinct role in the best stocks selected in portfolio construction. Stock indexes measure the performance of a certain group of stocks, bonds, or other investments. These investments are often grouped around a particular industry, like tech stocks, or even the stock market overall, as is the case with the FTSE Bursa Malaysia KLCI which consists of 30 company shares. According to Dharani et al., (2022), study finds that the estimated abnormal return of a portfolio based on search intensity is significantly high for stocks with higher search intensity and low for stocks with lower search intensity. This means that the performance of a certain index will affect the investment portfolio return. When the SAI is high, the excess returns are high for stocks with a high value, high volatility, and high sensitivity.

In addition, Baker et al. (2020) and Ramelli and Wagner (2020) observed substantial increases in stock market volatility and declines in stock prices in response to the COVID-19 pandemic. According to the study by Trichilli & Abbes (2022), the study finds that COVID-19 confirmed cases are leading to returns prices of DJI, Bitcoin, crude oil, gold, copper, and Brent oil. Using the thermal optimal path model, this study finds a strong lead-lag relationship between all financial market returns. Studies related to exchange rate, COVID-19, and Zoom video communication as investigated by Yien & Ahmad (2022) suggest exchange rate is affecting the Zoom video communication stock price in the long-term period. In addition, Salisu et al. (2021), used the multivariate volatility framework, which accounts for salient features of the series in the computation of optimal weights and optimal hedging ratios, related that the gold and sectoral stocks are excellent hedging choices during a pandemic, even though the performance is low. So far, including gold in a portfolio will provide better risk-adjusted performance. In the case of Malaysia, studies such as by Lee et al., (2020) indicated the findings showed that higher numbers of COVID-19 cases in Malaysia tended to adversely affect the performance of the KLCI index and all sectorial indices, except for the Real Estate Investment Fund (REIT) index. A supported study by Yong et al., (2021) proved that stock market return presistance decreases for Malaysia and Singapore stock market returns during the pandemic. This study concluded strongly COVID-19 outbreak harmed the return of the stock market. Research by Keh and Tan (2021) highlighted the government policy responses to economic activity and stock performance in Malaysia. The findings reveal that the responses taken by the government, such as staying-at-home requirements, closure of workplaces, and debt or contract relief for households, significantly affected both economic activity and stock market performance in the country.

3. METHODOLOGY

3.1 Model specification

To assess the impact of Malaysian indices performance and covid19 pandemic on Rakuten investment portfolio return, this study uses Ordinary Least Square (OLS) to prove the relationship between Malaysia indices performance, Covid-19, and Rakuten investment portfolio return. The linear model can be expressed as follows:

$$PRP_i = \beta_0 + \beta_1 FTSE_i + \beta_2 DJM_i + \beta_3 C19_i + \varepsilon_i \quad (3.1)$$

where PRP is the return of the Rakuten investment portfolio, FTSE is FTSE Bursa Malaysia KLCI stock return, DJM is the Dow Jones Malaysia stock return, and C19 represents to Covid-19 number of cases in Malaysia.

3.2 Data Description

Table 1: variables used in this study

Abbreviations	Variables	Frequency	Source
RPR	Return of Rakuten investment portfolio	Monthly	Calculation Yahoo. Finance
FTSE	FTSE Bursa Malaysia KLCI	Monthly	investing.com
DJM	Dow Jones Malaysia	Monthly	investing.com
C19	Covid19	Monthly	World Health Organization

Total Return for Rakuten Investment Portfolio

As Rakuten's investment portfolio consists of 5 different securities, the total return will be calculated by adding all profit of RM1000.00 investment on each security from January 2019 to April 2022.

With the assumption of changes every month would be the return for the security.

- Aemulus Holding Berhad
  AEMULUS profit plus equity = (equity*monthly changes) + equity
  Example: (1000*4.2553/100) +1000 =RM 1042.5530
  This is calculated for each month from January 2019 to April 2022.
- Bumi Armada Berhad
  ARMADA profit plus equity = (equity*monthly changes) + equity
- Cengild Medical Berhad
  CENGILD profit plus equity = (equity*monthly changes) + equity
- Genetic Technology Berhad
  GENETEC profit plus equity = (equity*monthly changes) + equity
- Kerjaya Prospek Group Berhad

KERJAYA profit plus equity = (equity*monthly changes) + equity

All the returns will be summed to find the total return of the Rakuten investment portfolio for each month.

4. RESULT

Table 1: Rakuten's investment portfolio return.

	AEMULUS	ARMADA	CENGILD	GENETEC	KERJAYA	**TOTAL**
Return after 40 months (RM)	2815.7390	2831.6974	1000.0000	16230.2500	952.1929	23829.8800

According to Table 1, Rakuten's investment portfolio is profitable. The highest return from the portfolio is GENETEC stock with a total of RM 16,230.25. GENETEC stock increased by 130% in June 2021 and 169% in July 2021, making the return increase almost five-fold from May. While KERJAYA stock lessens a little. We can see the advantage of diversification in this context as we can reduce the losses' probability. Similar to Biswas findings, risk will be lower as the number of securities in a portfolio increases. The CENGILD stock did not change as the stock began publicly traded in May 2022.

Table 2: Regression result.

Variable	OLS
Constant	7.604**
	(4.176)
FTSE	-8.045**
	(3.224)
DJM	8.557**
	(3.076)
C19	0.002
	(0.0001)
Adj R-squared	0.300

Please note that *, **, and *** refer to the significance level at 10%,5%, and 1% respectively.

As illustrated in Table 2, FTSE is statistically significant at the 0.05 level, where the coefficient is negative (-8.045) which indicates that the low performance of FTSE Bursa Malaysia will increase the Rakuten Investment Portfolio Return. While DJM is also statistically significant, the coefficient is positive which indicates that the high performance of Dow Jones Malaysia will increase the Rakuten Investment Portfolio Return. For C19, we can see that it is not significant. This study, concludes that the Covid-19 pandemic does not affect Rakuten's investment portfolio return. This result is in line with Curto & Serrasqueiro (2021) study, where not every sector and stock is affected by the Covid-19 pandemic.

5.0 DISCUSSION AND CONCLUSION

The total return of the Rakuten investment portfolio is amazingly huge for only 40 months. It can be considered one of the highest return portfolios in the stock industries not just in Malaysia but worldwide. With this, conclude that Rakuten's investment portfolio is profitable. Even though one of the securities in the portfolio is not traded and another one is lost, the total is still a profit. The benefits of diversity are significant in this context. On the other hand, this paper concludes that the FTSE Bursa Malaysia KLCI and Dow Jones Malaysia have a low positive relationship to the Rakuten investment portfolio returns. This means that an increase in either the FTSE Bursa Malaysia or Dow Jones Malaysia will increase the Rakuten investment portfolio returns a little. However, for Covid-19 it is seemingly unrelated to Rakuten investment portfolio returns. Follow the theory, the economy should be affected as the number of COVID-19 cases increases. Which is, Rakuten's investment portfolio returns should be decreasing as the number of COVID-19 cases increases. Based on this study concludes that Rakuten investment portfolio returns are unrelated to the COVID-19 cases. Investors should do more research and create a portfolio according to the economic condition. For example, during the pandemic, there are a lot of stocks that heavily crash such as airline-based companies. Investors should avoid this stock during the pandemic. Besides, this study would suggest a company that is not affected by the pandemic to be chosen to put in the portfolio. Technology-based companies should be the best option to invest during the pandemic. We propose using a diagnostic test and a more advanced econometric test to improve the limitations in this study.

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