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Capital Market Opportunities: In an Age of Transformation

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In the aftermath of the prolonged and painful pandemic, global financial markets are faced with profound challenges from rising geopolitical tensions, massive monetary interventions, digital disruption to increased vulnerabilities from climate change risks and widening inequality. Such mega-trends led to global disruptions in capital allocations, impacting emerging markets, such as Malaysia disproportionately. Post-pandemic, we now live in a highly interactive, complex, and interconnected system that fundamentally changes the way we think about capital markets and its role for our own economy and society.

First, capital markets can play a very important role in creating the right conditions for a more resilient and sustainable economic development (Ziolo et al., 2017). For instance, green investing has become a key strategy for post-pandemic recovery, resulting in a capital shift toward financing more green capacity (Kumar, 2022). However, markets cannot solve everything and especially periods of global systemic shocks such as the pandemic. Navigating the post pandemic landscape requires both the public and private sectors to adapt rapidly to changing conditions. At the same time, we must work on the much-needed longer term structural reforms, such as building human capital to tackle climate change in a more cohesive manner.

Second, achieving a high-income economy status requires Malaysia to mobilise and allocate capital efficiently towards productive, innovative, and sustainable economic activities. There are many scholarly studies on the nexus between the capital market and the real economy, which show the positive contributions of equity and bond markets, especially the role of Islamic finance (Abduh & Sukman, 2013; Tan & Shafi, 2020). Malaysia

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has a comparatively well-developed capital market with a robust regulatory framework and has also successfully positioned itself as a global leader in Islamic finance.

We now need to notch up the pace and scope of reforms, so that Malaysian capital markets remain well-positioned to address both the challenges and opportunities in this age of transformation. To this end, the Institute for Capital Market Research (ICMR) has invited the wider research community to share their research findings on capital market opportunities in Malaysia and beyond. After a rigorous process of review and revision, five research papers have been selected for this special issue of the Institutions and Economies (IE) journal, that we find will be of keen interest to the capital market industry, academia as well as policymakers and regulators.

The first two papers analyse the role of capital markets in financing sustainable development activities and the impact on firm performance. There is growing research interest in studying the relationship between non-financial sustainable metrics and financial performance. The paper by Li, Wee, and Tien entitled "*Do Environmental, Social and Corporate Governance (ESG) Practices Enhance Malaysian Public-Listed Companies Performance?*" specifically addresses the role of ESG principles in influencing the financial performance of listed firms. Using Tobin-Q, the paper demonstrates a positive relationship between ESG and corporate financial performance, but the relationships between the subgroups of ESG are mixed. The paper recommends that investors implement ESG strategies, which can improve both social and financial performance. The government can also accelerate the pace of ESG implementation by offering tax incentives and financing programmes. These measures are critical to support the nation's transition to achieving sustainability goals.

On top of the ESG principles, the United Nations (UN) Sustainable Development Goals (SDGs) have 17 goals to meet the universal agenda by 2030. The paper by Ooi entitled "*The Road to Sustainable Investing: Corporate Governance, SDGs, and the Financial Market*" focuses on the impact of corporate governance (CG) and SDG practices on corporate performance in Malaysia and developed countries (the United States (US), United Kingdom (UK), Canada, and Singapore). The results show that CG and SDG practices have positive impacts on the financial market and on company performance in Malaysia and the developed countries. However, the relationships vary between the countries when tested against specific factors of CG and SDG targets. The paper shows that understanding the impact of CG factors and SDG targets on financial market performance is critical in formulating more effective policies.

Islamic finance is gaining traction globally, and given its distinctive characteristics, instruments offered under Shariah compliance (SC) are often studied to compare against conventional instruments. The paper by Ashraf entitled "*A Five-Factor Asset Pricing Model of Shariah Compliant Firms in the US*", investigates the asset pricing behaviour of Shariah-compliant firms listed in the US, using the Fama & French Five Factor Model, and compares it with the conventional sample. The results show that asset pricing behaviour differs between Shariah-compliant and conventional samples, and the Fama & French Five Factor Model proves to be a more suitable model compared to the traditional Capital Asset Pricing Model (CAPM).

Interest in studies on behavioural finance has also risen in recent years, especially during periods of heightened uncertainty, whereby expectations of rational behaviour in traditional efficient market theory often becomes more questionable. The paper by Hii, Li and Zhu entitled "*Behavioural Biases and Investment Decisions during COVID-19: An Empirical Study of Chinese Investors*" analyses four types of behaviour patterns of Chinese investors during the pandemic. The paper finds that Chinese investors are subject to behavioural biases and heuristic, where decision making during the pandemic was significantly influenced by behavioural factors, i.e., representativeness, disposition effect, and herding effect. The findings of the paper provide important insights on behavioural biases during periods of uncertainty, which could help design intervention policies to minimise or mitigate the negative effect of such biases.

Talent is the key ingredient in ensuring capital market competitiveness, especially in a rapidly changing global financing landscape. The paper by Shahkila and Firdaus entitled "*Digitalisation: The Effectiveness of e-Learning in Capital Market*" presents a qualitative analysis to study the effectiveness of capital market e-learning programmes as a platform for knowledge transfer. The paper explores factors, such as flexibility, cost-effectiveness, efficient and engaging learning experience, in explaining the effectiveness of an e-learning programme. This study fills a gap on the availability of literature specific to the effectiveness of capital market-related e-learning programmes in Malaysia. Therefore, it will help capital market policymakers to better understand the nuances of running an effective e-learning programme related to capital market talent development.

In conclusion, this special issue underscores the importance of better studies on capital markets in mobilising capital for sustainable economic development. We hope that policymakers, industry players, and investors will find it useful to navigate the complex and changing landscape of global finance in an age of transformation. We encourage multi-faceted perspectives and studies on the challenges and opportunities within Malaysia's capital markets and beyond.

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