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The Role of Inflation, Monetary Policy Interest Rates, and Foreign Portfolio Investment on Stock Market Volatility in ASEAN Countries

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ABSTRACT

This study examines the role of inflation, monetary policy interest rates, and foreign portfolio investment (FPI) in driving stock market volatility in ASEAN countries through a systematic literature review (SLR). The review synthesizes empirical evidence from studies conducted between 2000 and 2025, providing insights into how these macroeconomic variables influence stock market behavior in the region. The findings reveal that inflation, particularly when high or volatile, negatively impacts stock market stability by eroding purchasing power and increasing uncertainty. Monetary policy interest rates, especially during periods of tightening, are inversely related to stock market returns, exacerbating volatility. Foreign portfolio investment, while providing liquidity, also introduces risk, with capital inflows and outflows linked to shifts in global economic conditions. The interactions between these variables are complex, often creating feedback loops that amplify stock market fluctuations. The study underscores the need for ASEAN policymakers to balance inflation control and interest rate adjustments to stabilize financial markets, while investors should be mindful of the macroeconomic environment when making decisions. The paper contributes to the broader literature on financial market behavior in emerging economies and suggests avenues for future research to better understand the intricate relationships between these macroeconomic variables.

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1. INTRODUCTION

The stock market plays a crucial role in economic development, acting as a barometer for investor confidence, capital allocation, and overall economic health. In ASEAN countries, stock markets have become increasingly integrated into the global financial system, driven by financial liberalization, trade relationships, and global market influences. Financial liberalization, particularly in Thailand, Malaysia, and Indonesia, has led to stronger long-term relationships among ASEAN-5 markets [1], and policy initiatives have further supported this integration, as seen in the co-integration relationships among ASEAN stock indices [2]. ASEAN stock markets also show strong linkages with global markets, especially China, reflecting the influence of global economic dynamics on regional markets [3]. This integration requires investors to consider global market dynamics in their portfolio strategies, while policymakers must enhance regulatory measures to mitigate risks from global shocks [3]. Additionally, trade relationships influence stock market integration, with stronger trade ties leading to higher co-movements among markets [1]. Stock market volatility, where increased volatility in one market can lead to higher returns in another, highlights interconnected market dynamics [4], underscoring the need to understand these complexities for navigating volatility and its implications for economic development in the region.

Among the various factors that influence stock market behavior, macroeconomic variables such as inflation, monetary policy interest rates, and foreign portfolio investment (FPI) are often regarded as the key determinants of volatility. Inflation, a measure of the rate at which prices rise, can erode purchasing power and affect investor expectations, which in turn, can lead to increased volatility in the stock market. Similarly, monetary policy interest rates, set by central banks, directly impact liquidity in the financial system and investor sentiment. Changes in these rates often have a profound effect on asset pricing, investment decisions, and market stability. Macroeconomic variables such as inflation, monetary policy interest rates, and foreign portfolio investment (FPI) significantly influence stock market volatility. Inflation affects investor expectations and purchasing power, leading to increased market volatility. Interest rates, determined by central banks, impact liquidity and investor sentiment, influencing asset pricing and market stability. FPI, representing cross-border investments, can introduce volatility due to its sensitivity to global economic conditions. These factors collectively shape the dynamics of stock markets, as evidenced by various studies. Rising inflation is identified as a primary driver of stock market volatility, particularly during economic downturns. It erodes purchasing power and affects investor expectations, leading to market instability [5]. Uncertainty about the price level, a component of inflation, significantly explains variations in market volatility, accounting for over 50% of the variation in historical data [6]. Changes in interest rates directly impact investor sentiment and asset pricing. Central banks' monetary policies influence liquidity in the financial system, affecting market stability [5]. The riskless rate of interest is a critical determinant of stock market volatility, with significant explanatory power in historical analyses [6]. FPI is sensitive to global economic conditions and can introduce volatility in stock markets. It is influenced by macroeconomic indicators such as the Consumer Price Index and foreign exchange rates [7]. The study on the Indian stock market highlights the impact of FPI on stock price volatility, emphasizing the intricate linkages between macroeconomic factors and market behavior [7].

Foreign portfolio investment (FPI), which refers to investments made by foreign entities in a country's financial markets, adds another layer of complexity to stock market volatility. While FPI is often seen as a source of capital and economic growth, it can also lead to increased market instability, especially in times of global economic uncertainty. The interaction between these macroeconomic variables and their cumulative effect on stock market volatility remains an area of intense interest and debate among scholars and market participants. FPI plays a significant role in influencing stock market volatility, as it interacts with various macroeconomic variables. While FPI can be a source of capital and economic growth, it also introduces volatility, particularly during periods of global economic uncertainty. The relationship between FPI and stock market volatility is complex, as it is influenced by multiple factors such as exchange rates, industrial production, and inflation. This complexity is evident in different markets, including India, Indonesia, and Egypt, where FPI's impact varies based on local economic conditions and policies. In India, FPI is significantly influenced by the Nifty Index, Index of Industrial Production (IIP), and exchange rates in the long run, while in the short run, exchange rates and the Nifty

Index are more impactful [8]. In Turkey, FPI affects the Istanbul Stock Exchange Price Index and exchange rates, with industrial production being a key factor affecting FPI [9]. In Egypt, FPI flows have been shown to increase the inflation rate, thereby affecting macroeconomic stability both in the short and long run [10]. In Indonesia, FPI has a significant effect on economic growth and foreign direct investment (FDI), suggesting that FPI can enhance economic growth through its influence on FDI [11]. The Indian stock market's volatility is affected by macroeconomic factors such as the Index of Industrial Production, Consumer Price Index, and foreign institutional investment, highlighting the intricate dynamics between the economy and financial markets [5].

This paper aims to explore the role of inflation, monetary policy interest rates, and foreign portfolio investment in shaping stock market volatility in ASEAN countries. Through a systematic literature review (SLR), we examine existing studies to identify the relationships between these variables and their impact on market fluctuations across the region. By synthesizing the findings from various empirical studies, this paper provides a comprehensive understanding of the mechanisms that drive stock market volatility in ASEAN economies. The importance of this research lies in its potential to offer actionable insights for both policymakers and investors. Policymakers can better design monetary policies that mitigate negative market volatility, while investors can make more informed decisions by understanding the risks associated with macroeconomic fluctuations. Furthermore, the findings contribute to the broader literature on financial market behavior in emerging economies, offering a more nuanced understanding of how global and domestic factors interact to influence market dynamics. The structure of the paper is as follows: Section 2 provides a detailed literature review on the key macroeconomic variables—inflation, monetary policy interest rates, and foreign portfolio investment—along with their theoretical underpinnings. Section 3 outlines the methodology used for conducting the systematic literature review. Section 4 presents the findings from the reviewed literature, highlighting key trends and insights. Section 5 discusses the implications of the findings for ASEAN countries, and Section 6 concludes with recommendations for future research and policy considerations.

2. LITERATURE REVIEW

2.1 *Inflation and Stock Market Volatility*

Inflation is a critical macroeconomic factor that significantly influences stock market volatility, as evidenced by various studies. The relationship between inflation and stock returns is predominantly negative, with inflationary pressures leading to increased market uncertainty and volatility. This is particularly evident in ASEAN countries, where inflation impacts corporate profits and investor confidence, exacerbating stock market fluctuations. The studies reviewed provide insights into the mechanisms through which inflation affects stock markets, highlighting the complex interplay between macroeconomic variables and investor behavior. Fama's hypothesis suggests that the negative correlation between inflation and stock returns is a proxy for the adverse relationship between inflation and real economic activity [12]. Empirical evidence from the US and G7 economies supports the negative impact of inflation risk on stock returns, with inflation-induced volatility further amplifying this effect [13]. The negative relationship persists across various sectors, although the energy sector shows a positive correlation, indicating its potential as a hedge against inflation [13]. Inflation uncertainty, as analyzed through ARCH models, is negatively associated with stock prices, indicating that higher inflation volatility leads to increased stock market volatility [14]. In African countries, higher inflation is linked to increased stock return volatility, suggesting that inflationary pressures prompt shifts from stocks to alternative assets [15]. The negative relationship between expected inflation and stock returns is considered a puzzle, as stocks are traditionally viewed as a hedge against inflation. However, macroeconomic interactions, such as the impact of expected inflation on real output, contribute to this negative correlation [16].

2.2 *Monetary Policy Interest Rates and Stock Market Volatility*

Monetary policy, particularly interest rate decisions by central banks, plays a crucial role in maintaining financial market stability, especially in regions like ASEAN where markets are sensitive to global conditions. Interest rate changes can significantly impact stock market volatility, as they influence borrowing costs, investment, and consumption. In ASEAN countries, the effect of interest rate changes on stock returns is pronounced, with negative correlations observed during periods of monetary tightening. This is due to the discounting effect on future cash flows, which is more pronounced in open economies with high exposure to global capital flows. Interest rate adjustments are a primary tool for central banks to influence economic activity and market stability. Higher interest rates increase borrowing costs, reducing investment and consumption, which can lead to market downturns [17]. In ASEAN-5 countries, interest rate changes have a substantial impact on stock returns, with negative correlations during tightening periods. This effect is amplified in emerging markets due to higher perceived risk and lower investor diversification [18]. Central banks, such as the Bank of England and the Federal Reserve, often respond to increased stock market volatility by lowering interest rates to stabilize financial markets. This approach is supported by empirical evidence showing that interest rate reductions can mitigate financial market stress [19]. Theoretical frameworks and empirical evidence suggest that monetary policy, through interest rate adjustments, serves as a channel for transmitting economic stability. However, unexpected fluctuations in financial markets can complicate economic decision-making, necessitating integrated strategies for macroeconomic stability [18].

2.3 *Foreign Portfolio Investment (FPI) and Stock Market Volatility*

Foreign portfolio investment (FPI) plays a crucial role in the ASEAN region by providing capital and facilitating economic growth, yet it also introduces significant volatility due to its sensitivity to global economic conditions. The ASEAN-5 countries, including Indonesia and the Philippines, experience heightened market volatility as foreign investors react to changes in global risk sentiment, such as interest rate hikes or geopolitical tensions. This volatility is further influenced by the development level of financial markets and institutional quality within these countries. More developed markets tend to experience lower volatility, while less developed markets are more susceptible to large fluctuations. FPI significantly influences stock market returns in ASEAN countries, with volatility spillovers varying under different market conditions. The global financial crisis highlighted these effects, with significant differences observed across countries like Thailand, the Philippines, and Indonesia [20]. In Indonesia, both FPI and foreign direct investment (FDI) have a favorable impact on stock market capitalization, suggesting that foreign investments are crucial for market development and the need for policies that stabilize macroeconomic conditions to attract more foreign investors [21]. Global risk aversion, often measured by the VIX index, significantly impacts asset price volatility in emerging markets, including ASEAN countries. The magnitude of this impact is influenced by factors such as financial openness and macroeconomic fundamentals like inflation and current account balance [22]. During periods of increased global risk aversion, foreign investors tend to withdraw capital, leading to declines in market prices, particularly in less developed markets like Indonesia and the Philippines [20].

3. RESEARCH METHODS

3.1 *Approach*

This study employs a Systematic Literature Review (SLR) methodology to examine the role of inflation, monetary policy interest rates, and foreign portfolio investment (FPI) on stock market volatility in ASEAN countries. The aim of the review is to synthesize and critically analyze the existing empirical evidence on the relationship between these macroeconomic variables and stock market volatility across the region. This method is particularly suitable for aggregating knowledge from multiple studies to generate a comprehensive understanding of the topic.

The literature search was conducted using several academic databases, including Scopus, Web of Science, and Google Scholar, to ensure a comprehensive collection of relevant studies. The search focused on peer-reviewed journal articles, working papers, and conference proceedings published between 2000 and 2025. The primary keywords used for the search were stock market volatility, inflation, monetary policy interest rates, foreign portfolio investment, ASEAN countries, and emerging markets. These keywords were combined using Boolean operators (AND, OR) to ensure the retrieval of articles that addressed the relationships between these variables and stock market volatility. Specific search queries included combinations such as "Stock market volatility AND inflation AND ASEAN," "Interest rates AND stock market volatility AND ASEAN," and "Foreign portfolio investment AND market fluctuations in ASEAN." The search was limited to English-language publications to ensure accessibility and comparability of the findings. To narrow down the results further, only studies focused on ASEAN countries or regions with comparable emerging market characteristics were included.

3.2 *Inclusion and Exclusion Criteria*

To ensure the relevance and quality of the studies included in the review, the following inclusion and exclusion criteria were applied:

Table 1. Inclusion and Exclusion

Criteria	Inclusion	Exclusion
Empirical Studies	Only studies that empirically examine the relationship between inflation, interest rates, FPI, and stock market volatility. Both quantitative and qualitative studies considered.	Non-empirical studies: Theoretical articles, reviews, and conceptual papers without empirical evidence on the topic.
ASEAN Focus	Studies that focus on the ASEAN region or individual ASEAN countries.	Non-ASEAN countries: Studies not focusing on ASEAN countries or the broader Southeast Asian context.
Publication Period	Studies published between 2000 and 2025 to capture the most recent developments and trends in the region's financial markets.	Outdated studies: Articles published before 2000 or those not directly relevant to the research question.
Peer-reviewed	Only articles published in peer-reviewed journals or reputable working papers to ensure reliability and validity of the findings.	Articles not published in peer-reviewed journals or reputable working papers.
Relevance to Research	Studies analyzing the impact of inflation, monetary policy interest rates, and FPI on stock market volatility or similar financial market phenomena.	Irrelevant studies: Articles not directly related to the impact of macroeconomic variables on stock market volatility.
Language	Only studies published in English.	Non-English publications.

3.3 Data Extraction

After the initial search, a total of 75 studies were identified based on the search strategy. Following the application of the inclusion and exclusion criteria, 30 studies were selected for full-text review. These studies were further analyzed to extract relevant data based on key parameters such as study details (author(s), year of publication, and title), research objectives (primary goals and research questions), macroeconomic variables (focus on inflation, monetary policy interest rates, FPI, or a combination), methodology (research design, data sources, and analytical techniques like econometric models, panel data analysis, GARCH models, etc.), findings (outcomes regarding the impact of the macroeconomic variables on stock market volatility), and context (specific ASEAN countries or regional contexts). The extracted data were organized into a data matrix to facilitate comparison across studies, highlighting common themes, methodological approaches, and key findings related to the research question.

3.4 Data Synthesis and Analysis

The analysis of the selected studies was conducted using a thematic synthesis approach, which involves grouping and categorizing the findings based on key themes and variables. This approach is suitable for systematic literature reviews aiming to identify patterns and trends across diverse studies. The synthesis process was carried out in several steps: first, studies were grouped according to the macroeconomic variables they examined (inflation, monetary policy interest rates, FPI) and their impact on stock market volatility. Within each group, common trends and relationships were identified, such as categorizing studies with a significant negative relationship between inflation and stock market volatility together, while those examining the moderating role of FPI were placed in a separate group. Studies with contradictory findings were analyzed to understand discrepancies, considering factors like differing methodologies, data sources, and country-specific contexts. The synthesis also addressed how the relationship between variables might differ based on the level of financial market development, institutional frameworks, and macroeconomic conditions in different ASEAN countries. Finally, the findings were integrated to form a comprehensive understanding of the mechanisms driving stock market volatility in ASEAN countries. To assess the quality of the studies, criteria such as methodological rigor, sample size and representativeness, relevance to the research question, and publication status were applied. Methodological rigor focused on the appropriateness of research design, data sources, and statistical techniques; sample size considered the number of countries or firms analyzed; relevance ensured the studies addressed the relationship between inflation, interest rates, FPI, and stock market volatility in the ASEAN context; and publication status emphasized peer-reviewed journal articles, particularly from high-impact journals.

4. RESULTS AND DISCUSSION

4.1 The Role of Inflation in Stock Market Volatility

The reviewed studies indicate that inflation is a significant determinant of stock market volatility in ASEAN countries, with most research identifying a negative relationship between inflation and stock market performance, where higher inflation increases uncertainty and drives greater market volatility. Inflationary pressures in countries such as Indonesia, the Philippines, and Thailand significantly influence market fluctuations because high inflation erodes purchasing power and raises production costs, prompting central banks to increase interest rates, which in turn suppress stock prices by raising borrowing costs and reducing consumer and business spending. Empirical findings show that in Indonesia, high inflation negatively affects banking sector stock prices due to increased interest rates, reduced purchasing power, and higher credit default risks, leading investors to reduce their exposure to banking stocks [23]. Theoretically, inflation decreases the real value of corporate earnings and thus reduces stock prices, as argued by Fama and confirmed in ASEAN markets where inflation volatility is higher [23], [24]. Inflation further affects macroeconomic stability by reducing household purchasing power, which may decrease consumption and trigger recessions, creating a negative cycle for aggregate demand and economic growth [25]. It also exacerbates income inequality and alters spending patterns, requiring government intervention to stabilize purchasing power and income distribution [26]. In ASEAN-5 countries, inflation increases inflation uncertainty, potentially worsening price instability [24], while other studies show that inflation can raise market power through higher markups, emphasizing the importance of inflation management in preventing harmful market power expansion [27].

Overall, the negative relationship between inflation and stock returns is reinforced by Fama's [28] argument that inflation reduces the real value of corporate earnings, which particularly affects emerging markets such as ASEAN countries where inflation is more volatile and less predictable. With the ASEAN region comprising both rapidly growing economies and those with weaker macroeconomic frameworks, inflation shocks tend to have a more substantial impact on stock market performance. These findings highlight the vulnerability of ASEAN stock markets to inflationary pressures, especially in countries with unstable and unpredictable inflation rates. While monetary tightening may help mitigate the impact of inflation on stock markets, such policies must be implemented cautiously, as excessively high interest rates can further depress market performance. Therefore, policymakers in ASEAN need to design strategies that not only control inflation but also maintain stable market conditions to protect investors.

4.2 *The Influence of Monetary Policy Interest Rates on Stock Market Volatility*

Monetary policy interest rates are a central factor influencing stock market volatility in ASEAN countries, with an overall inverse relationship between interest rates and stock market returns. When central banks raise interest rates, stock prices tend to decline because borrowing costs increase, corporate earnings weaken, and equities become less attractive compared to alternative investments. Research findings show that changes in interest rates significantly affect stock market returns in ASEAN-5 countries, where higher rates exacerbate volatility by reducing market liquidity. This effect is evident in Indonesia: when the central bank raised interest rates to combat inflation, the Jakarta Composite Index experienced heightened volatility due to declining investor confidence and slowing economic activity. These dynamics align with financial constraints models, which argue that contractionary monetary policy—especially interest rate hikes—tightens liquidity and increases volatility [29]. Changes in Indonesia's benchmark interest rate have also been shown to directly influence investor sentiment and asset pricing, contributing to fluctuations in stock valuations [30]. Furthermore, several studies report asymmetric effects, where monetary policy shocks have a greater impact during bear markets, indicating that tighter policy can shift markets from bullish to bearish states and amplify volatility [29], [31].

The influence of monetary policy also varies across sectors, as some industries are more sensitive to interest rate fluctuations than others, underscoring the need for a sector-specific perspective when assessing these effects [32]. This variability is even more pronounced in ASEAN countries with open financial systems that are highly responsive to global capital flows. When major economies such as the United States or the European Union raise interest rates, foreign capital often flows out of ASEAN markets in search of higher returns, thereby intensifying market volatility. Overall, the findings indicate that monetary policy functions as a key lever for maintaining stock market stability in the region. However, policymakers in ASEAN must manage interest rate adjustments carefully to avoid triggering excessive volatility. While tightening monetary policy may be necessary for inflation control, it must be executed cautiously to prevent adverse shocks to stock markets. Additionally, the global interconnectedness of ASEAN economies requires policymakers to account for spillover effects from interest rate hikes in advanced economies when formulating domestic monetary policy responses.

4.3 *The Impact of Foreign Portfolio Investment (FPI) on Stock Market Volatility*

Foreign portfolio investment (FPI) is widely recognized as a major contributor to stock market volatility in ASEAN countries due to its dual nature. On one hand, FPI brings in substantial capital inflows that enhance market liquidity, support business expansion, and strengthen government financing. Several studies highlight that foreign investors can act as liquidity providers, as observed during the Asian Financial Crisis when foreign investors in Thailand were net buyers, thereby sustaining liquidity despite severe volatility [33]. The presence of foreign investors can also improve transparency and market monitoring, contributing to better long-term liquidity [34]. However, this stabilizing effect coexists with volatility-inducing dynamics. Research shows that foreign equity trading has a strong contemporaneous relationship with market volatility in Indonesia and Thailand, where even small proportions of foreign selling significantly explain market movements [35]. The unpredictable nature of foreign flows, particularly during periods of global financial uncertainty, often heightens volatility in emerging markets where investor sentiment is more fragile [36]. Historical evidence from Indonesia illustrates this clearly: capital outflows during the late 1990s Asian Financial Crisis triggered substantial volatility as foreign investors rapidly withdrew assets in response to economic instability.

The complex impact of FPI is further demonstrated through cross-country evidence in ASEAN. In Thailand, for example, high liquidity has been linked to increased crash risk, suggesting that market depth can both stabilize and destabilize markets depending on underlying conditions [37]. Similar patterns emerge in the Philippines and Vietnam, where fluctuations in foreign investment flows—often driven by changes in global risk appetite—are closely associated with heightened stock market volatility. Overall, the findings underscore that while FPI enhances liquidity and market efficiency, it simultaneously introduces considerable vulnerability. Sudden reversals in FPI can lead to sharp market corrections, making ASEAN stock markets highly sensitive to external shocks. This vulnerability is amplified during periods of global uncertainty, where shifts in investor sentiment can trigger large-scale capital movements. For policymakers, the challenge lies in striking a balance: encouraging long-term, stable foreign investment while implementing mechanisms to mitigate short-term volatility risks. Strengthening market resilience, diversifying investor bases, and enhancing financial safeguards become essential strategies for managing the dual effects of FPI on stock market stability in the ASEAN region.

4.4 *Interactions Between Inflation, Interest Rates, and FPI*

A key insight from the literature is the intertwined relationship between inflation, interest rates, and foreign portfolio investment (FPI), and how these macroeconomic forces jointly shape stock market volatility in ASEAN countries. High inflation typically prompts central banks to raise interest rates in an effort to stabilize price levels, but this monetary tightening increases borrowing costs, suppresses investment, and slows economic activity—conditions that heighten stock market volatility. The studies reviewed highlight that inflation and interest rates exhibit bidirectional causality, with structural breaks influencing their interaction across major economies [38], while the Fisher Effect shows that expected inflation plays a central role in shaping nominal interest rates and monetary policy responses [39]. Higher interest rates tend to deter investment and redirect capital toward safer assets, particularly when inflation becomes excessive and erodes purchasing power, although stable inflation can stimulate investment growth and support long-term economic expansion [39]. However, when interest rates rise in response to inflationary pressures, foreign investors frequently withdraw capital, triggering capital flight that exacerbates stock market volatility—a pattern especially visible in ASEAN countries where markets are deeply exposed to shifts in global risk sentiment. Research further indicates that monetary tightening can increase systemic financial risks such as loan defaults and liquidity shortages, emphasizing the need for macroprudential regulations to support both price and financial stability in emerging markets [40].

The combined influence of these variables generates a feedback loop that amplifies market instability, particularly when inflation shocks, interest rate adjustments, and foreign capital flows move simultaneously. Studies show that inflation and interest rate shocks have substantial impacts on stock market cycles, with disinflation contributing to market booms and inflation fueling market busts, highlighting the role of central banks in minimizing unexpected inflation changes to improve market stability [41]. Empirical evidence from Malaysia and Thailand demonstrates that simultaneous high inflation, rising interest rates, and foreign capital outflows intensified stock market volatility during periods of economic crisis, underscoring the cascading effects triggered by interactions among these variables. The findings emphasize that ASEAN policymakers must carefully calibrate monetary policy to avoid negative spillovers: tightening interest rates may be necessary to curb inflation, but excessive tightening can destabilize already fragile stock markets. At the same time, strategies to attract stable, long-term foreign investment are crucial for mitigating sudden reversals in FPI that amplify market volatility. Ultimately, managing the interplay between inflation, interest rates, and foreign portfolio investment is essential for reducing systemic vulnerabilities and fostering resilient financial markets in the ASEAN region.

4.5 *Implications for Policymakers and Investors*

For policymakers, the results highlight the need for a balanced approach in managing inflation and interest rates, where central banks in ASEAN countries aim to reduce inflation without excessively tightening monetary policy, as overly aggressive measures can heighten stock market volatility. Policymakers must also account for the influence of foreign portfolio investment (FPI) on market stability by adopting strategies that attract long-term, stable foreign capital to mitigate the risks of sudden outflows. For investors, the findings emphasize the importance of understanding macroeconomic dynamics—particularly inflation trends, interest rate adjustments, and shifts in FPI—since these interacting factors play a crucial role in shaping market conditions and should be closely monitored when making investment decisions.

5. CONCLUSION

This paper provides a comprehensive analysis of the factors influencing stock market volatility in ASEAN countries, focusing on inflation, monetary policy interest rates, and foreign portfolio investment. Through a systematic literature review, we identified that inflation, interest rates, and FPI each have significant impacts on market fluctuations, both independently and interactively. Inflation increases market uncertainty and can lead to higher volatility, while higher interest rates, typically implemented in response to inflation, can further dampen market stability. Additionally, foreign portfolio investment, although a key source of capital, can also lead to increased volatility, particularly in response to global risk sentiment. The interplay between these variables creates complex feedback loops that influence stock market dynamics in the region. For policymakers, the findings suggest that a careful and balanced approach to managing inflation and interest rates is necessary to maintain stability in financial markets. Similarly, investors should remain attuned to macroeconomic conditions to navigate the risks associated with stock market volatility. Future research could explore the evolving impact of these variables in the context of global economic shifts, as well as the role of institutional frameworks in moderating their effects on market stability.

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