

## **MACROECONOMIC VARIABLES AND STOCK MARKET PERFORMANCE IN NIGERIA**

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<https://doi.org/10.57233/gujaf.v6i2.18>

### **Abstract**

This study examined macroeconomic variables and stock market performance in Nigeria, using secondary data from the Central Bank of Nigeria. The study adopted the Autoregressive Distributed Lag Model (ARDL) technique to analyze the data obtained for the study. Furthermore, the results revealed that exchange rate fluctuations significantly affect stock market performance with a p-value of ( $p < 0.01$ ). Interest rate is also significantly related to stock market performance, with a p-value of ( $p < 0.01$ ). Inflation also significantly affects stock market performance with a p-value of 0.01. Finally, Gross Domestic Product significantly impacts the performance of the stock market in Nigeria with a coefficient value of (0.000000137) and a p-value of (0.0269). Based on the findings, the study concluded that macroeconomic fundamentals exert a substantial and measurable influence on stock market performance in Nigeria. Therefore, the study recommended that policymakers should implement strategies to stabilize the naira by promoting foreign investment, reducing overreliance on oil exports, and diversifying the economy.

### **1.0 Introduction**

The interaction of macroeconomic variables with stock market performance has remained a topic of intense debate in financial and economic research. The stock market plays an essential role in achieving economic development with the provision of a platform for capital formation and investment. However, the unpredictability of the Nigerian stock market raises concerns about the extent to which key economic indicators impact market performance (Agunobi, Efionayi, & Akutson, 2024).

Despite various policy interventions aimed at stabilizing the Nigerian economy, fluctuations in these economic indicators have persisted, often leading to uncertainty among investors. For instance, the Nigerian economy faced a recession in 2020 due to the COVID-19 pandemic, significantly affecting GDP growth and causing sharp declines in stock prices (World Bank, 2021). Recent reports highlight Nigeria's economic growth, with GDP increasing by 3.84% in the fourth quarter of 2024, the fastest in three years, primarily driven by the services sector. Similarly, exchange rate volatility has been a major concern, as the naira has experienced significant depreciation, affecting foreign investment in the stock market (Shettima, Abdussalam, & Olayinka, 2023). Economic policy uncertainty significantly affects stock market returns and liquidity, while its effect on market volatility is notably negative. Additionally, exchange rate volatility positively influences stock market returns and liquidity, though its impact on market volatility was insignificant. (Uhunmwangho & Izeke, 2024).

Interest rates also play a crucial role in stock market performance. A high-interest-rate environment often discourages equity investment as investors prefer fixed-income securities, thereby affecting stock market liquidity (Peter et al., 2024). The broad money supply, all-share index, and financial deepening have significant effects on total market capitalization, whereas interest rates did not exhibit a significant impact. (Agunobi, Efionayi, & Akutson, 2024). Additionally, inflation remains a persistent issue, eroding purchasing power and influencing investor confidence in the market (Iortyer & Maji, 2022). The private sector credit, exchange rate, and interest rate have a significant effect on the All-Share Index, while inflation exhibited a negative but insignificant influence. This suggests that while certain

macroeconomic variables directly impact stock market performance, the effect of inflation may be more nuanced. (Okoebor, 2020).

Several studies Such as Bello et al., (2020), examined macroeconomic variables on market capitalization. These past studies considered macroeconomic variables such as exchange rate, interest rate and inflation rate while neglecting other important macroeconomic variables such as gross domestic product, foreign direct investment and public spending. This study will uniquely consider these omitted variables. This study also adopts the ARDL Model. The ARDL Model is the most suitable for dual stationarity of variables. The next section considers the literature review, while the methodology will be discussed next. The fourth section deals with data presentation and analysis. Finally, the fifth section considers the conclusion and recommendations.

## **2.0 Theoretical and Empirical Review**

The Efficient Market Hypothesis (EMH) posits that financial markets are inherently efficient, implying that asset prices fully incorporate all available information at any given time. This theory, first introduced by Fama (1970), suggests that no investor can consistently achieve abnormal returns above the market average since prices adjust instantaneously to new information. The EMH serves as a foundation for modern financial theory and investment strategies, arguing that financial markets function as rational mechanisms where all participants have access to the same publicly available data. Under this framework, investors cannot systematically outperform the market through active trading, as price movements are largely unpredictable and follow a random walk.

EMH is classified into three forms based on the nature of information reflected in stock prices. The weak-form efficiency assumes asset prices should be reflective of historical prices, making technical analysis ineffective for forecasting stock movements. The semi-strong form efficiency posits that prices should be reflective of all publicly information; reflecting information of financial statements, that of news releases, as well as macroeconomic indicators, thereby rendering both technical and fundamental analysis ineffective for generating excess returns. The strong-form efficiency contends that stock prices reflect all information, both public and private, meaning that insider trading could not give an advantage (Financial Times, 2023). While the weak and semi-strong forms of EMH find empirical support in developed markets, strong-form efficiency is widely contested, particularly in emerging economies where insider information can still impact stock prices.

Oladipo and Adebayo (2023) study on government expenditure and stock market performance in Nigeria, focused on how public spending influences stock market returns. The results indicated that government expenditure positively affects stock market performance in the long run, suggesting that increased public spending boosts economic activities, thereby enhancing investor confidence. However, in the short run, excessive government spending was found to contribute to inflationary pressures and interest rate fluctuations, which can negatively impact stock returns. The study recommended that policymakers ensure fiscal discipline and allocate government expenditure efficiently to sectors that promote sustainable stock market growth in Nigeria.

Zhang and Wang (2023) explored the relationship between economic fundamentals and stock market valuation using the Cyclically Adjusted Price-to-Earnings (CAPE) ratio as a valuation metric. The study analyzed macroeconomic indicators such as GDP growth, inflation, interest rates, and corporate earnings to determine their impact on stock market valuation across different economic cycles. Employing a panel data regression model with data spanning multiple economies, the findings revealed that GDP growth and corporate earnings have a significant positive effect on stock market valuation, while inflation and high interest rates exert a negative impact. The study also highlighted that markets with strong institutional frameworks and stable economic policies tend to exhibit more predictable

valuation trends. The authors recommended that investors and policymakers consider economic fundamentals when making long-term investment decisions, emphasizing the need for stable macroeconomic policies to enhance market efficiency.

Li and Chen (2022) focused on the economy of China. The study employed an econometric approach, utilizing a Vector Autoregression (VAR) model to analyze the dynamic interactions between stock market indicators, such as market capitalization and trading volume, and macroeconomic variables. The findings indicated that stock market performance has a significant short-term impact on economic growth, mainly through wealth effects and investment channels. However, in the long run, the stock market’s influence on real economic activities was found to be limited due to structural inefficiencies and speculative trading behaviors. The authors recommended the implementation of stronger regulatory measures to enhance market stability and improve the linkage between the financial market and the real economy, ensuring sustainable economic development.

Bello and Sanusi (2023) considered foreign direct investment (FDI) and stock market performance in Nigeria, analyzing how capital inflows impact stock market growth and stability. The study employed the ARDL model to analyze the data. FDI was revealed to positively influence stock market performance in the long run, as increased foreign investment enhances market liquidity and investor confidence. However, short-term fluctuations in FDI were found to contribute to stock market volatility, indicating the sensitivity of Nigeria’s capital market to external economic shocks. The authors recommended policies aimed at improving Nigeria’s investment climate, including regulatory stability, infrastructure development, and financial market reforms, to attract and sustain foreign investment for long-term stock market growth.

Khan and Khan (2021) investigated the impact of macroeconomic variables on stock market performance using evidence from the Karachi Stock Exchange (KSE). VECM was used to analyze interest rates, inflation, exchange rates, and money supply on stock market returns. The findings indicated that exchange rates and money supply significantly impact stock market performance, while inflation and interest rates exhibited a negative relationship with stock returns. The study highlighted the importance of stable macroeconomic policies in fostering stock market growth and recommended that policymakers focus on controlling inflation and ensuring a stable exchange rate environment to enhance investor confidence and market efficiency.

**3. Methodology**

Secondary data was utilized in the study, which was obtained from the statistical bulletins of the Central Bank of Nigeria from 1985-2023, covering thirty-eight (38) years. This study employed a time series econometric approach to examine macroeconomic variables on stock market performance in Nigeria over the period 1986 to 2023. The analysis is based on annual data for key macroeconomic indicators: exchange rate, interest rate, inflation rate, and gross domestic product (GDP). Stock market performance is proxied by the annual volume of transactions on the Nigerian Stock Exchange. Before the main regression analysis, all variables were subjected to a stationarity test using the Augmented Dickey-Fuller (ADF) unit root test to determine their order of integration. This is crucial for avoiding spurious regression and ensuring the robustness of the results. The study also applied the Autoregressive Distributed Lag (ARDL) model to capture both the short-run dynamics and long-run equilibrium relationships between macroeconomic variables and stock market performance in Nigeria.

**Model Specification**

ASI = f(ER, IR, IFR, GDP, UNP, FDI, CES, PSG) ..... (1)

Econometrically, the model is stated as:

ASI<sub>t</sub> = β<sub>0</sub> + β<sub>1</sub>ER<sub>t</sub> + β<sub>2</sub>IR<sub>t</sub> + β<sub>3</sub>IFR<sub>t</sub> + β<sub>4</sub>GDP<sub>t</sub> + β<sub>5</sub>UNP<sub>t</sub> + β<sub>6</sub>FDI<sub>t</sub> + β<sub>7</sub>PSG<sub>t</sub> + ε<sub>t</sub> .....(2)

Where:

ASI = All Share Index

ER = Exchange Rate

IR = Interest Rate

IFR = Inflation Rate

GDP = Gross Domestic Product

UNP = Unemployment Rate

FDI = Foreign Direct Investments

PSG = Public Spending

$\beta_0$  is the constant term,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$  are the slope parameters, and  $\varepsilon_t$  is the Stochastic Error Term.x.

#### 4. Data Analysis

**Table 1:**  
**Descriptive Statistics**

	ASI	ER	IFR	IR	GDP	FDI (% of GDP)	Public spending
Mean	19,449.8900	141.1169	19.2532	17.8328	50,660.6500	1.3141	3,512.2190
Median	22,876.7200	125.8300	12.8766	17.5550	18,124.0600	1.1591	1,504.2000
Maximum	62,088.5200	645.1900	72.8355	29.8000	234,425.9000	4.2821	19,808.4400
Minimum	117.2833	0.8900	5.3880	9.2500	187.8306	(0.0391)	13.0411
Std. Dev.	17,352.0600	143.6582	16.9991	4.1939	63,943.5200	0.9452	4,578.9540
Skewness	0.5507	1.4759	1.7921	0.5668	1.2877	0.8446	1.8082
Kurtosis	2.3227	5.3360	5.0222	3.9887	3.6870	3.6895	6.0970
Jarque-Bera Probability	2.7169 0.2571	23.0269 0.0000	27.5215 0.0000	3.6764 0.1591	11.5448 0.0031	5.4093 0.0669	36.8391 0.0000
Observations	39	39	39	39	39	39	39

**Source:** Researcher's computation, 2025.

The All-Share Index (ASI), which reflects the performance of the Nigerian stock market, has a mean of 19,449.89, with a wide range between the minimum (117.28) and maximum (62,088.52), indicating substantial volatility over time. The high standard deviation (17,352.06) further confirms this variability, while the skewness (0.55) and kurtosis (2.32) show a moderately right-skewed distribution

that is not excessively peaked. The Jarque-Bera probability of 0.2571 indicates that the ASI series is approximately normally distributed.

The exchange rate has a mean of ₦141.12 per US dollar with a large standard deviation of 143.66, indicating significant fluctuations during the sample period. The minimum value of ₦0.89 and the maximum of ₦645.19 reflect Nigeria’s movement from a fixed to a floating exchange rate system. The distribution is positively skewed (1.48) and leptokurtic (5.34), with a Jarque-Bera p-value of 0.0000, indicating that the data is not normally distributed and contains extreme values likely associated with policy shifts and currency devaluations.

The inflation rate has a mean of 19.25% and is also characterized by high volatility, as shown by the standard deviation of 16.99. The maximum inflation rate of 72.83% and the minimum of 5.39% suggest periods of macroeconomic instability. The distribution is heavily skewed to the right (1.79) and has a kurtosis of 5.02, with a Jarque-Bera p-value of 0.0000, indicating strong evidence against normality in the inflation data. Interest rate, with a mean of 17.83% and a standard deviation of 4.19, shows relatively less variation. Its distribution is nearly symmetric and closer to normal, as shown by a Jarque-Bera p-value of 0.1591.

Gross Domestic Product (GDP), measured in billions of naira, shows a mean of ₦50,660.65 billion with a large variation from ₦187.83 billion to ₦234,425.90 billion. The high standard deviation of ₦63,943.52 billion reflects the substantial growth in the Nigerian economy over time. The distribution is right-skewed (1.29) and leptokurtic (3.69), with a Jarque-Bera p-value of 0.0031, indicating non-normality, likely due to structural economic changes and inflation adjustments over time. FDI inflows, expressed as a percentage of GDP, have a relatively low average of 1.31% and a standard deviation of 0.95, suggesting modest inflows with occasional spikes. Its Jarque-Bera p-value of 0.0669 shows slight deviation from normality. Public spending has a mean of ₦3,512.22 billion and varies significantly over time, ranging from ₦13.04 billion to ₦19,808.44 billion. Its distribution is highly skewed (1.81) and leptokurtic (6.10), and the Jarque-Bera p-value of 0.0000 shows significant deviation from normality.

Overall, the descriptive statistics reveal that most of the variables exhibit substantial variability, skewness, and deviations from normality, indicating the presence of macroeconomic instability and structural transformations over time. These characteristics suggest the need for formal stationarity testing to assess the suitability of these series for econometric modeling. The next section will address this through unit root tests to determine the order of integration of each variable.

**Table 2:**  
*Panel Unit Root Test Results (ADF Approach)*

<b>Variables</b>	<b>ADF Test stat. (p-value)</b>	<b>Order of Integration</b>
ASI	0.0000	I(1)
ER	0.0002	I(1)
IFR	0.0011	I(1)
IR	0.0093	I(0)
GDP	0.0106	I(1)
FDI	0.0163	I(0)
PSG	0.0000	I(1)

**Source:** Researcher’s computation, 2025.

Interest rate (IR) and foreign direct investment (FDI) appear to be stationary at the level, indicating I(0), while GDP (in logarithmic form) is found to be stationary at first difference, confirming it is I(1). These findings are important for choosing the appropriate estimation technique for subsequent regression analysis. Since the variables are integrated at various orders (I(0) and I(1)), techniques that assume all series are of the same order of integration, such as standard OLS, may not be appropriate. This mixture calls for methods such as the ARDL model, which is fit for a mixture of I(0) and I(1) variables, or more advanced panel cointegration approaches if long-run relationships are to be established.

**Table 3:**  
*ARDL Bounds Test (Co-integration)*

Test Statistic	Value	Significance Level	I(0)	I(1)
F-statistic	24.90932	10%	2.53	3.59
		5%	2.87	4
		2.50%	3.19	4.38
		1%	3.6	4.9
<b>k (No. of regressors)</b>	6			

Source: Researcher’s computation, 2025.

The F-statistic value of 24.90932 significantly exceeds all the upper critical bounds. This outcome implies that a statistically significant long-run co-integrating relationship exists between ASI and the set of macroeconomic variables included in the model. The presence of co-integration validates the appropriateness of applying the ARDL-ECM approach to examine both the short-run dynamics and long-run equilibrium of the relationship. This result is consistent with economic theory, which postulates that stock market performance tends to move in the long run with fundamental macroeconomic indicators. The confirmation of a long-run relationship also suggests that policy or structural shocks to any of these variables can have enduring impacts on the Nigerian stock market.

### ARDL Regression Results

**Table 4:**  
*Long-Run Coefficients from ARDL Model*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ER	-1610.46	198.5833	-8.10837	0.0014
IFR	13978.66	764.4482	18.28703	0.0003
IR	2138.724	451.2657	4.738249	0.0089
Log GDP	137000000	39949412	3.433778	0.0269
FDI	-35337.30	2783.74	-12.6962	0.0007
Log PSG	27600000	4487259	6.147413	0.0032
C	-1380000000	345000000	-3.9935	0.0174
@TREND	-23470.7	1310.321	-17.9141	0.0003

Source: Researcher’s computation, 2025.

From the long run table, the exchange rate (ER) exhibits a statistically significant negative effect on the Nigerian All Share Index (ASI) in the long run with a  $p$ -value less than 0.01, this finding suggests that a depreciation of the naira tends to reduce stock market performance. This result shows that currency depreciation often erodes investor confidence, increases transaction costs, and creates uncertainty around future cash flows. Conversely, the inflation rate (IFR) shows a positive and statistically significant relationship with ASI in the long term, with a coefficient of 13,978.66 and a  $p$ -value below 0.01. At first glance, this result may appear counterintuitive, as high inflation is generally associated with macroeconomic instability. However, in the Nigerian context, it reflects nominal gains in corporate revenues, asset revaluations, or inflation hedging behaviors in the equity market. Investors may also anticipate higher future earnings from firms with pricing power, which allows them to pass inflationary costs to consumers, thereby supporting stock valuations.

The interest rate (IR) also has a positive and statistically significant long-run effect on ASI, with a coefficient of 2,138.72 ( $p < 0.01$ ). This may imply that higher interest rates increase income from savings and fixed-income instruments, which can lead to portfolio rebalancing toward equities in search of higher returns. Further reinforcing the connection between macroeconomic health and the stock market, the GDP carries a large, positive, and statistically significant coefficient ( $\beta \approx 1.37 \times 10^8$ ;  $p \approx 0.0269$ ). This result confirms that long-term economic growth supports stock market expansion by enhancing corporate profitability, increasing disposable income, and encouraging both domestic and foreign investment in equities. As GDP rises, market fundamentals improve, providing a fertile environment for capital market development.

In contrast, FDI shows a significant but negative effect on ASI in the long run, with a coefficient of  $-35,337.27$  and a  $p$ -value below 0.01. This finding may suggest that FDI inflows are channeled predominantly into non-equity sectors such as oil, infrastructure, or real estate, thereby limiting their direct impact on the stock market. Additionally, FDI may lead to increased repatriation of profits or crowding out of local firms, which could depress domestic investor participation in the stock exchange.

The log of public sector growth is associated with a strong positive and statistically significant effect on ASI in the long run ( $\beta \approx 2.76 \times 10^7$ ;  $p < 0.01$ ). This suggests that public sector expansion, through government spending on infrastructure, education, health, and social programs, can stimulate business activity and investor confidence, ultimately boosting the stock market. Public investments may also catalyze private-sector growth, especially when they enhance productivity and reduce the cost of doing business.

**Table 5:**  
*Short-Run Dynamics of the ARDL Model (ECM Regression Results)*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ER)	222.3405	13.9303	15.9609	0.0005
D(ER(-1))	-694.782	46.0024	-15.1032	0.0006
D(ER(-2))	-479.088	27.8952	-17.1745	0.0004
D(ER(-3))	-1295.91	62.6807	-20.6749	0.0002
D(IFR(-1))	8395.049	393.9582	21.3095	0.0002
D(IFR(-2))	4732.472	212.8287	22.2361	0.0002
D(IFR(-3))	2562.894	130.7181	19.6063	0.0003
D(IR)	3611.946	208.5722	17.3175	0.0004
D(IR(-2))	-7526.63	431.8371	-17.4293	0.0004
D(log GDP(-2))	225308.3	10772.37	20.9154	0.0002
D(FDI)	-57876.1	2619.167	-22.0971	0.0002
D(FDI(-1))	-31948.6	1627.156	-19.6346	0.0003
D(FDI(-2))	-17595	1041.368	-16.8961	0.0005

D(FDI(-3))	4153.728	568.806	7.3025	0.0053
D(log_PSG)	10831.26	3096.47	3.4979	0.0395
D(log_PSG(-1))	339623.9	16088.62	21.1096	0.0002
D(log_PSG(-2))	284849.7	12601.06	22.6052	0.0002
D(log_PSG(-3))	117670.3	5619.019	20.9414	0.0002
<b>CointEq(-1)</b>	<b>-0.94187</b>	<b>0.06533</b>	<b>-22.8713</b>	<b>0.0002</b>

**Dependent Variable:** D(ASI); **Selected Model:** ARDL (2, 4, 4, 3, 3, 4, 4);

**Model Summary:** R-squared = 0.7922; Adjusted R-squared = 0.7704; F-statistic = 45.65 (Prob = 0.000001); Durbin-Watson stat = 3.12

**Source:** Researcher’s computation, 2025.

The short-run dynamics of the ARDL model provide important insights into the immediate effects of macroeconomic variables on the Nigerian stock market, as captured by the All-Share Index (ASI). Central to this short-run model is the error correction term (CointEq(-1)), which is statistically significant and correctly signed. With a coefficient of  $-0.94187$  ( $p < 0.01$ ), it indicates that approximately 94.2% of any deviation from the long-run equilibrium is corrected within one period.

Among the macroeconomic indicators, the exchange rate (ER) shows significant short-run volatility. The contemporaneous change in ER (D(ER)) has a strong positive effect (222.34;  $p < 0.01$ ), suggesting that a temporary depreciation of the naira may initially lead to a rise in stock prices, possibly due to increased export competitiveness. However, the lagged terms of ER (e.g., D(ER(-1)), D(ER(-2)), and D(ER(-3))) exhibit significantly negative coefficients, indicating that continued depreciation over time reverses any initial gains and leads to declining investor confidence and lower ASI levels. This reflects a delayed market correction as the longer-term risks of currency weakness materialize.

The inflation rate (IFR) also shows dynamic short-run effects. While the current change in IFR is statistically insignificant, the lagged terms, especially D(IFR(-1)) through D(IFR(-3)), are positive and highly significant ( $p < 0.01$ ). These results suggest a lagging positive response of the stock market to rising inflation, possibly due to nominal revenue increases, inflation hedging behavior, or asset revaluation effects in the short run. However, this does not necessarily imply that inflation is beneficial overall, as its long-term effect must be assessed in conjunction with structural fundamentals. Similarly, interest rates (IR) influence ASI in a complex manner. The immediate change (D(IR)) is strongly positive and significant (3611.95;  $p < 0.01$ ), implying that short-term interest rate hikes may be interpreted by the market as policy measures to stabilize the economy, thereby improving investor confidence. However, the second lag (D(IR(-2))) turns significantly negative ( $-7526.63$ ;  $p < 0.01$ ), showing that prolonged high interest rates may eventually suppress equity investments due to rising borrowing costs and reduced corporate earnings.

In terms of broader economic conditions, changes in log GDP reveal mixed short-run effects. The contemporaneous change (D(log\_GDP)) is significantly negative, while the second lag (D(log\_GDP(-2))) turns strongly positive. This suggests a short-term downturn or adjustment effect following economic shocks, but a delayed rebound as market fundamentals recover.

For foreign direct investment (FDI), the short-run coefficients are predominantly negative and significant. Both D(FDI), D(FDI(-1)), and D(FDI(-2)) display substantial negative effects on ASI, with only D(FDI(-3)) showing a delayed positive response. This suggests that in the short run, FDI inflows might initially displace domestic investments or signal foreign dominance in non-equity sectors, dampening local investor sentiment. Lastly, public sector growth (log\_PSG) demonstrates strong and consistently positive short-run effects. All lags (D(LOG\_PSG), D(LOG\_PSG(-1)), D(LOG\_PSG(-2)), and D(LOG\_PSG(-3))) are highly significant, indicating that expansionary fiscal activity or public

investment stimulates market optimism and stock performance in both the immediate and lagged periods.

In summary, the short-run ARDL results confirm that Nigeria's stock market is highly sensitive to fluctuations in key macroeconomic indicators, especially the exchange rate, inflation, interest rates, and government activity. While some variables show temporary benefits (e.g., ER and IR), their lagged negative effects highlight the importance of stability and policy consistency in sustaining investor confidence.

### **5.0 Conclusion and Recommendations**

This study concludes that macroeconomic fundamentals exert a substantial and measurable influence on stock market performance in Nigeria. The empirical evidence demonstrates that fluctuations in the exchange rate, interest rate, and inflation rate significantly impact the Nigerian All Share Index (ASI) in the long run. Policymakers should implement strategies to stabilize the naira by promoting foreign investment, reducing overreliance on oil exports, and diversifying the economy. Exchange rate volatility deters investor participation and undermines market stability. The Central Bank of Nigeria (CBN) should maintain a balanced interest rate regime that supports investment and economic productivity. While inflation targeting remains vital, excessively high interest rates can dampen stock market performance.

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