



**MACROECONOMIC DETERMINANTS OF CAPITAL MARKET PERFORMANCE  
IN AN OPEN ECONOMY: EVIDENCE FROM NIGERIA**

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**Abstract**

Global market dynamics, investor behavior, regulatory frameworks, technological developments, and macroeconomic indicators are just a few of the many variables that influence capital market performance. The study looked at the factors that affect Nigeria's capital market performance. For this study, a yearly time-series data set from 2001 to 2022 was obtained from the Securities Exchange Commission (SEC) and the Central Bank of Nigeria (CBN). To estimate the model's parameters, data was subjected to linear regression analysis. The findings demonstrated that Nigeria's economic market capitalization is greatly increased by business earnings. Macroeconomic indicators have a major positive impact on Nigeria's economic market capitalization. Market capitalization is negatively impacted by exchange rates. This indicates that a rise in the exchange rate will result in a decline in market capitalization, while foreign direct investment has a favorable effect on Nigerian market capitalization. Therefore, the study suggested that the government enact laws and offer incentives that promote businesses' expansion and financial success. Tax incentives, better financing availability, and business-friendly laws can all help achieve this. This study suggests that the government should use monetary policy tools and foreign exchange reserves to mitigate excessive exchange rate volatility, control inflation, maintain low interest rates, and encourage sustainable economic growth in order to ensure stable macroeconomic conditions. Additionally, the government should develop policies that attract foreign direct investment, such as lowering bureaucratic barriers, guaranteeing political stability, and offering alluring investment incentives.

**Keywords:** *macroeconomics, open economy, capital market, investment.*

## **1. Introduction**

The capital market plays a key role in the economic development and expansion of any country, providing as a platform for mobilizing savings and diverting them towards productive investments. In Nigeria, like in many other emerging economies, the capital market acts as a major component of the financial system, offering a method for generating long-term financing for both the government and private sector firms. Policymakers, investors, and other stakeholders must comprehend the factors that influence Nigeria's capital market performance in order to make wise choices and create practical plans that will support a thriving and robust capital market ecosystem (Oladosu & Akeerebari, 2022).

Any economy needs the capital market because it facilitates economic progress and serves as a channel for the effective distribution of financial resources. The capital market's performance is crucial for promoting sustainable growth and drawing in investment in Nigeria, a vibrant growing economy. Policymakers, investors, and other stakeholders looking to improve market efficiency and stability must have a thorough understanding of the variables influencing capital market performance. Numerous elements, referred to as determinants, have an impact on the capital market and work together to shape its behavior and performance. These elements fall into four general categories: investor sentiment, market-specific factors, regulatory issues, and macroeconomic factors. The intricate relationships between market structure, investor behavior, regulatory framework, and economic fundamentals are reflected in the many facets and interconnections of the factors that influence capital market performance. In this study, capital market performance is determined by macroeconomic indicators such as foreign direct investment, company earnings, and currency rates. (2020, Olokoyo).

One of the main factors influencing the performance of the capital market is macroeconomic indicators, which are measures of the general health and performance of an economy. These indicators include a wide range of economic variables, including the GDP growth rate, inflation rate, unemployment rate, and interest rates. A strong GDP growth rate, for example, frequently translates into higher corporate earnings and stock prices, while high inflation and unemployment rates can erode investor confidence and impair market performance (Abdullah, 2019). In Nigeria, as in any other economy, macroeconomic indicators are vital in determining investor sentiment, influencing investment choices, and influencing capital market performance. Investments made by foreign entities in domestic companies or assets with the

intention of gaining a long-term stake and substantial influence over the invested firm are referred to as foreign direct investment, or FDI. FDI inflows are essential for Nigeria's capital market expansion, infrastructural development, and economic growth. By bringing in money, technology, and experience, foreign investors promote innovation, increase productivity, and create jobs. Additionally, foreign and domestic investors are drawn to Nigeria because FDI inflows frequently indicate trust in the country's economy and investment climate (Agu, 2019). The gains that companies make from their operations and activities are referred to as corporate earnings. Corporate profits are a key factor influencing stock prices and investor returns in the capital market. Investor attitude, market value, and investment choices are all influenced by the corporate earnings of listed businesses, which are a major factor in determining capital market performance in Nigeria. Increased demand for stocks and higher stock prices are supported by strong corporate earnings growth, which indicates business success and possible returns for investors. On the other hand, low business profits could cause investor disenchantment and market sell-offs. Elgazzar, Barakat, and Hanafy (2016). The value of one currency in relation to another is known as the exchange rate, and it is an important factor in capital flows, international trade, and investment. The performance of the capital market is greatly impacted by exchange rate fluctuations in Nigeria, a country whose economy is highly dependent on imports and foreign investment. Exchange rate fluctuations can have an impact on inflation rates, import costs, and exporting enterprises' profitability. Additionally, changes in exchange rates have an impact on capital flows, investor mood, and how appealing Nigerian assets are to international investors (Azeez, 2019)

Examining how macroeconomic variables affect the Nigerian capital market helps investors and policymakers understand market trends and develop effective strategies by shedding light on the connection between economic fundamentals and market dynamics. For investors, analysts, and policymakers looking to comprehend market trends and spot investment possibilities, examining the variables influencing corporate profitability and their connection to capital market performance offers insightful information.

For investors, policymakers, and companies looking to control currency risks, maximize investment returns, and advance market stability, it is crucial to comprehend the factors influencing exchange rate movements and their effects on the Nigerian capital market. With a focus on the interactions among macroeconomic indicators, foreign direct investment (FDI), corporate earnings, and exchange rate dynamics, this study aims to investigate the factors that influence capital market performance in Nigeria. This paper's main objective is to investigate

the variables that affect Nigeria's capital market performance. In essence, we aim to achieve a few specific goals, such as analyzing how the exchange rate affects capital market performance, assessing how macroeconomic indicators affect capital market performance, figuring out how foreign direct investment affects capital market performance, and looking into how corporate earnings affect capital market performance in Nigeria.

## **2. Literature Review**

The study of Shi and Shen (2021) focused on natural gas prices and macroeconomic uncertainty. The paper analyzes three markets and the three different gas pricing mechanisms: the U.S. market for hub pricing, the Japanese market for oil indexation, and the German market for transition between the two pricing regimes. The study also looked into the dynamic causal impact of shocks to macroeconomic uncertainty on the setting of natural gas prices. The results demonstrate that macroeconomic uncertainty is a key factor in determining natural gas price variations, which in turn drives business cycle variances among the study's countries.

The factors influencing the growth of stock markets in emerging markets in Europe, Latin America, and Africa were studied by Kunofiwa (2018). The study used the pooled ordinary least squares (OLS) approach with secondary data from 1994 to 2014. The results showed that the development of the stock market in emerging nations was favorably and significantly impacted by FDI, savings, economic growth, trade openness, exchange rates, banking sector development, and stock market liquidity. In a related study, Megaravalli and Sampagnaro (2018) used month-by-month time arrangement data from 2008 to 2016 to examine the short- and long-term effects of macroeconomic guidelines on financial exchanges in the ASIAN 3 economies, which include China, India, and Japan. The analysis found evidence that switching scale had a significant long-term positive impact on securities exchanges, whereas swelling had a negligible detrimental impact on finance exchanges. In the short term, the factors had no discernible negative impact on the stock exchanges.

According to a model created by Punzi (2019), the economy is a tiny open economy made up of businesses and households. Businesses use energy as a productivity input, while households use it for domestic consumption. Dynamic stochastic general equilibrium (DSGE) was used for the study, and data were collected for ten Asian nations between 2000 and 2016. The study found that while enterprises' energy price volatility shocks provide a short-term increase in GDP and a long-term reversal, rising energy prices also induce an economic slowdown via raising consumer costs. Using the GMM and panel VAR paradigm, Adarov (2021) examined

24 nations, classifying them as either bank-based or market-based economies. Financial disequilibrium causes a more profound and faster response of business cycles in bank-based economies, while in market-based economies it is more persistent but mild, with greater significance for current account and public debt dynamic prices. His findings demonstrate that financial cycles play a significant role in shaping macroeconomic imbalances, with expansions causing economic overheating and downward pressure on public debt to GDP ratios.

The impact of policy uncertainty on stock market return data from the Canadian economy was investigated by Batabyal and Killins (2021). The results indicate that there is asymmetry in the short and long term. In the long term, lesser policy uncertainty encourages investors to take on portfolio risk for higher returns, while higher policy uncertainty encourages investors to adopt a "risk-off" strategy to gravitate toward lower-risk assets, lowering asset prices. Bhuiyan and Chowdhury (2020) looked at stock market indexes and macroeconomic factors, with a focus on the US and Canada. The results of the study demonstrate a consistent correlation between the sectorial indices used in the research and macroeconomic factors. Furthermore, it was discovered that the Canadian stock market could be explained by the US money supply and interest rates.

Saleh In'airat (2018) evaluated the effect of dividend distributions as an internal component, and oil prices as an external factor on stock market values in oil-producing economies. The study sample was the data of 40 businesses listed on the Saudi Stock Exchange over the period 2011 to 2015. The data was analyzed and possible correlations between the variables were confirmed using the data regression model. To capture the sectoral impact on stock market prices, dummy variables were employed. The study's findings offered empirical support for the idea that dividends, specifically for listed companies on the Saudi stock exchange, are important when interpreting share prices. The findings showed that weekly oil prices had a considerable favorable impact, and that a company's industry can influence the price of its stock.

Using the ARDL method and monthly data for the years 1991:M1 to 2017:M12, Havva and Ahmet (2019) investigated the short- and long-term macroeconomic determinants of Turkish stock returns under the influence of "domestic and global economic policy uncertainty." Macroeconomic variables used in the study include the Geopolitical Risk Index for Turkey (GPR), the Economic Policy Uncertainty index of the United States of America (EPU), the real effective exchange rate (RER), the consumer price index (CPI), the interest rate (R), the industrial production index (IPI), the stock market price indexes of Turkey's BIST100 index

(BIST) and the BIST industrial index (IND), and the Geopolitical Risk Index for Turkey (GPR). The findings of the ARDL estimation show that changes in the IPI, RER, and CPI have a favorable short-term impact on the returns of BIST stocks. The macroeconomic factors influencing the growth of the Philippine stock market were examined by Ho and Odhiambo (2018). Using the ARDL bounds testing procedure, the empirical results showed that while the development of the banking sector and the exchange rate both have short-term positive effects on the development of the Philippine stock market, trade openness has a long-term negative impact.

Gatsimbazi, Jaya, and Patrick (2018) analyzed the effects of exchange rate, GDP growth rate, inflation (CPI) and interest rate (KRR) on stock market performance measured by market capitalization. The study employed monthly time series data over a period of 6 years. Engel Granger Cointegration tests were carried out to determine the long run relationship between the variables respectively. In order to examine how the aforementioned macroeconomic factors affected stock market performance, the study used the VAR approach. This involved computing impulse response functions and Variance Decomposition Analysis. The results showed that while interest rates have a negative small impact on stock market performance, GDP, inflation, and exchange rates have a negative significant impact. Stephen Ruchu Gachihi (2022) identified the factors that influence the growth of Kenya's capital market. Time series data covering the years 2001–2020 were used in the empirical investigation. The Pearson correlation test was utilized to assess the association between the variables in this study, which took a quantitative approach and used secondary data spanning 20 years. Additionally, this study applied the Ordinary Least Square (OLS) approach to multiple regression analysis. Foreign direct investment, investment, and stock market liquidity were the macroeconomic variables that were measured. For capital market development indicators, market capitalization, listed businesses, value traded and turnover ratio were evaluated. The regression results suggest that all the variables, stock market liquidity, investment and foreign direct investment are major predictors of capital market development in Kenya. According to the results of Ordinary Least Square (OLS), the three independent variables account for 91% of the variation in the dependent variable, and the model is significant overall.

Aldukhail (2019) examined how macroeconomic factors affected the Saudi stock market's activity between 1997 and 2017. The GDP, time deposit interest rate, and inflation rate were macroeconomic factors. The stock price index, market value of shares, and value of traded shares were the variables that affected the activity of the Saudi stock market. The researcher

employed the ARDL model for the self-regression of the lagged dispersed time gaps in order to accomplish this goal. The research's most significant findings are: According to the suggested models, the impact of macroeconomic factors on the performance metrics in the Saudi stock market is statistically significant over the long run and insignificant in the near term, therefore investors in this market can rely on macroeconomic factors in Forecast long-term gains and losses as well as the movement of the stock market.

Ndlovu (2018) used quarterly data from 1981 to 2016 Q4 to evaluate the impact of macroeconomic variables on the price of Arrow, Johannesburg shares in South Africa, including inflation (INF), money supply growth (M3), interest rates (IR), and the US dollar exchange rate (EX). To ascertain the association between these variables, the study employed dissolution of variance, joint correlation tests, vector error correction model, and pulse response function. While the exchange rate has a negative effect on stock prices, inflation, interest rates, and the cash supply all have a long-term positive association with share values. It was discovered that there was unidirectional causality between interest rates and exchange rates and the money supply, as well as between interest rates and exchange rates and the share price. Contrast analysis has demonstrated that while causal shocks in stock prices and exchange rates increase their impact on changes in themselves as well as the impulse response function, stock price shocks account for the majority of changes in general for all periods over the short and long term.

Khan & Khan (2018), by studying the monthly data from May 2000 to August 2016, the effect of several macroeconomic variables on stock prices in Pakistan was determined and all variables were fixed at the first difference. Therefore, the optimum ARDL technique was applied to the restricted test to verify the short- According to the results of the integration of macroeconomic variables on stock prices, the money supply, exchange rate, and interest rates have a significant impact on long-term stock values on the Karachi Stock Exchange. With the exception of the exchange rate, which has a negative correlation with stock prices, other variables are negligible in the near run. When altering the market's money supply, you need to exercise caution because an excess of it could have an impact on both the stock market and investments. In order to promote economic activity, enhance the external economic environment through rule-based exchange rate management, and refrain from taking discretionary actions, the regulator should maintain interest rates at a reasonably low level.

A study titled "Impact of Capital Market on Economic Growth in Oman" was conducted by Alam and Hussein in 2019. The research used secondary data from 1960 to 2015. OLS was

used to examine the data. The findings show a strong and favorable correlation between Oman's capital market and economic expansion. Jamaludin's (2017) study looked at how traditional and Islamic stock market returns were affected by macroeconomic factors such as inflation, money supply (MS), and exchange rate (ER) in the three ASEAN nations that were chosen: Singapore, Malaysia, and Indonesia. 2015. There is a need to adjust monetary policy to ensure that inflation is set at a low level because the results will have an impact on the strengthening of the capital market in ASEAN countries selected. The results of this study also show that inflation is more influential and inversely related to the returns of the stock market. When applying square plate regression techniques, the results show that ER and inflation have a significant impact on stock market returns, with MS being slim.

Felicia et al. (2020) investigated the long-term effects of macroeconomic variables on Nigeria's stock market performance (market capitalization), including interest rates, foreign capital flows, exchange rates, GDP growth, inflation, and trade. The study used the VECM analysis with data from the Central Bank of Nigeria (CBN) Statistical Bulletin 2018 and the World Development Indicators (WDI, 2018). 2) Interest rates, inflation, and trade have a negative relationship with stock market performance; 3) exchange rates, GDP growth rate, and foreign capital flows have a positive relationship with stock market performance; and 4) the results indicate that macroeconomic variables and stock market performance are integrated and hence linked over the long term. Our findings demonstrate that while exchange rates, GDP growth, inflation, and trade are weakly exogenous, the stock market, interest rates, and foreign capital flows are the main factors that correct when there is a departure from the long-term relationship between stock market performance and macroeconomic fundamentals.

The dynamics of uncertainty, macroeconomic factors, and capital market performance were investigated by Emmanuel et al. (2022) using Nigeria as a case study. Results indicate that Nigeria's macroeconomic performance is unaffected by uncertainty. However, because crude oil prices have a favorable and substantial effect on the Nigerian economy's money supply, all-share index, and gross domestic product, they have an impact on the nation's macroeconomic performance. Crude oil exports expose the economy to foreign uncertainty, which in turn causes domestic uncertainty and ultimately macroeconomic instability in Nigeria. Because the internal shock was deemed negligible, the study suggested that a framework be created for the Nigerian economy to lessen the impact of external shocks on the domestic economy.

The macroeconomic factors influencing the growth of Nigeria's capital market were investigated by Adeyemi et al. in 2021. The study used yearly data from the National Bureau

of Statistics and the Central Bank of Nigeria's various statistical bulletins from 1986 to 2016. Calderson-Rossell framework (1991) serves as the foundational framework for this investigation. The study investigated the macroeconomic factors influencing the growth of the Nigerian capital market using the Error Correction Model and ARDL Cointegration analysis. The study's conclusions showed that the stock market capitalization (SMC), which served as a stand-in for capital market development, and the macroeconomic variables did, in fact, cointegrate. The ARDL Error Correction Model Long run results showed that virtually all variables have insignificant positive relationship with stock market capitalization though the coefficients of macroeconomic variables are small which were all below 25% compare to the value of stock trade (VST) that represents stock market liquidity which was very high about 92%. Omodero (2020) explores the effect of various economic indicators in predicting the capital market performance in Nigeria utilizing secondary data covering a period from 1998 to 2018. The World Bank Development Indicators, International Monetary Fund, and CBN Statistical Bulletin, 2018 edition, are the sources of these statistics. According to the regression analysis's findings, interest rates have a significant negative impact on capital market capitalization (CMC), whereas inflation and exchange rates have negligible negative effects. In order to examine the macroeconomic factors that contribute to the improvement of the Nigerian stock market from 1981 to 2017, Azeez and Obalade (2018) used ARDL bound evaluation. The investigation revealed a long-term relationship between macroeconomic factors and stock market development, as well as a short-term one. The study also showed that the rise of the stock market is not significantly explained by financial savings rates. Stella (2017) used time series data from 1981 to 2014 to examine the long- and short-term dynamics of stock price movement and the macroeconomic variables. The study used the VAR model and Granger causality tests to examine the influence of macroeconomic indicators on the performance of the Nigerian stock market. The results of Impulse Response and Variance Decomposition demonstrated that while the Industrial Production Index and the exchange rate responded relatively steadily over time, the Share Index's response to one standard deviation in inflation, interest rates, and real GDP fluctuated. Given their sensitivity to changes in Nigerian stock prices, the study advised monetary authorities and policymakers to keep an eye on changes in monetary aggregates. Acha & Akpan (2019) investigated the connection between Nigeria's economic growth and capital market performance. The study used secondary data from 1987 to 2014, and the vector

autoregressive (VAR) method was used to analyze the data. According to the study, Nigeria's economic growth and capital market performance are positively and significantly correlated. The macroeconomic factors influencing the growth of the Nigerian stock market were studied by Bolanle et al. (2019). To examine the long-term and short-term relationships between the independent variables (GDP, banking sector development, stock market liquidity, foreign direct investment, inflation rate, and savings rate) and the dependent variable (stock market development), the study used the ARDL bound testing technique. The study's findings demonstrated that, in the short and long term, the development of the banking sector, stock market liquidity, foreign direct investment, and, to a lesser extent, GDP are the main macroeconomic factors that influence stock market development in the Nigerian Stock Exchange Market. In contrast, the inflation rate, which gauges macroeconomic stability, and the savings rate are insufficient to explain stock market development.

### **3. Methodology**

#### **Theoretical Framework**

A model or theory that looks at the key factors influencing the growth of the capital market was created by Calderon Rossell in 1991. The most significant effort to establish the groundwork for CMD financial theory is represented by this model. Economic growth and market liquidity are important variables in this approach. This theory places a strong emphasis on how macroeconomic policies, institutional issues, and structural traits influence capital market performance. The significance of institutional elements including governance structures, legal frameworks, and regulatory environments in affecting capital market performance is emphasized by the Calderon-Rosell Theory. Market efficiency and investor confidence are often enhanced by organizations that uphold the rule of law, encourage openness, and defend property rights.

Yartey (2015) adapted the Calderon-Rosell model to add other elements that may affect the evolution of capital markets. The determinants are separated into two groups known as macroeconomic and institutional factors. Savings, income levels, investments, private capital flows, stock market liquidity, and macroeconomic stability are examples of macroeconomic factors. Corruption, morality and public order, democratic accountability, and bureaucratic quality are examples of institutional variables.

### **Model specification**

In this study, the model is based on the modification of the model adopted in the study of Adeyemi (2021).

$$MC = f(\text{GDP, INT, INF, EXR, FDI, VTR})$$

Where;

GDPgr =Growth Rate of Gross Domestic Product; RINT= Real Interest Rate; INF = Inflation Rate; RER= Real Exchange Rate; FDI= Foreign Direct Investment;

The adopted model is restated in an econometric form as:

$$MC_t = \beta_0 + \beta_1 ER_t + \beta_2 MI_t + \beta_3 FDI_t + \beta_4 CE_t + U_t$$

Where, MC = Market capitalization, ER = Exchange rate, MI= Macroeconomic indicators, FDI= Foreign direct investment CE= Corporate earnings,  $\mu$  =Stochastic Disturbance (Error Term)  $\beta_0$  = Intercept of the model/constant  $\beta_1 - \beta_4$  = coefficients of each of the independent variables

To evaluate the relationships and dynamics in the data, inferential statistics more especially, time series modeling techniques are used. Time series regression analysis, which makes it possible to examine associations between variables over time, is the main inferential analysis tool used. To verify the validity of the modeling technique, pre-regression tests, such as testing for autocorrelation and stationary, are carried out before regression analysis. All things considered, the empirical modeling strategy used in this investigation complies with time series analysis guidelines, enabling a thorough analysis of the temporal patterns and connections present in the data.

This particular study, which is secondary in nature and covers the years 2001–2022, uses the annual time frame sequence data that was obtained from the National Bureau of Statistics and the Central Bank of Nigeria's statistical bulletins. While the National Bureau of Statistics ultimately provided the real interest rate and inflation, the Central Bank of Nigeria provided data such as the GDP growth rate, foreign direct investment, the significance of the inventory sold, and market capitalization.

### **4. Results**

The summary statistics of the variables used in this study are presented in Table 4.1. The market capitalization mean is 9.85, with a standard deviation of 0.35, a minimum of 9.24, and a maximum of 10.56. This indicates that the market capitalization in Nigeria during the period under investigation was 9.85 percent, with a spread of 0.35 percent from the average behavior.

The lowest and highest market capitalization values during this period were 9.24 percent and 10.56 percent, respectively. The corporate earnings mean is 6.09, with a standard deviation of 0.85, a minimum of 4.98 and a maximum of 7.24 for the period. During the time, the top and lowest company earnings were 7.24 percent and 4.98 percent, respectively. Macroeconomic indicators range from a minimum of 1.93 to a maximum of 4.89, with a mean of 4.07 and a standard deviation of 0.91. The average macroeconomic indicators were 4.07 percent, with a 0.91 percent deviation from this typical behavior, according to this. The macroeconomic variables with the greatest and lowest reported values were 4.89 and 1.93 percent, respectively. The mean of foreign direct investment is 12.80, the standard deviation is 6.71, and the minimum and maximum are 12.55 and 13.07, respectively. This shows that the average foreign direct investment during this time period was 12.80%, with a 6.71 percent deviation from this average behavior. During the time, foreign direct investment was at its lowest at 12.55 percent and at its greatest at 13.07 percent. The exchange rate's standard deviation is 3.42 and its mean is 10.69. 6.71 is the minimum, and 14.84 is the maximum. This indicates that, across the period, the average exchange rate was 10.69 percent, with a 3.42 deviation from the mean. The lowest was 6.71 percent, while the highest was 14.84 percent.

The variables are then described in terms of their relationships with one another. Pairwise correlation analysis is used to accomplish this. The correlation analysis's findings are displayed in Table 4.2, which also includes the relationships' corresponding p-values (in parenthesis) and correlation coefficient. Each pair of variables' relationship is displayed in the table. According to the findings in the correlation matrix above, market capitalizations have positive correlation coefficients with macroeconomic indicators (0.564811) and foreign direct investments (0.281026), but negative correlations with corporate earnings (-0.286314) and exchange rates (-0.540399). This indicates that while market capitalization moves in opposition to corporate earnings and exchange rates, it moves in tandem with foreign direct investments and macroeconomic indicators. In other words, higher market capitalizations are linked to higher levels of foreign direct investments and macroeconomic indicators, but they are also linked to lower levels of exchange rates and corporate earnings.

While corporate earnings have a positive connection with exchange rates (0.465401) and macroeconomic indices (0.025062), they have a negative correlation with foreign direct investment (0.546563). This indicates that company profits follow exchange rates and macroeconomic indices, but they follow foreign direct investment in the opposite manner. Put simply, higher corporate profitability are linked to higher exchange rates and macroeconomic

indices, but lower levels of foreign direct investment. Foreign direct investment and the exchange rate have a negative correlation coefficient (-0.166394 and -0.649625) with macroeconomic indicators. This suggests that the exchange rate and foreign direct investment move in different directions from macroeconomic variables. In other words, the exchange rate is linked to higher levels of macroeconomic indices. The exchange rate and foreign direct investment are negatively correlated. Lower exchange rates are linked to higher levels of foreign direct investment.

**Table 4.1:** Summary Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.
MC	9.853804	10.56074	9.237503	0.353017
MI	6.090546	7.244537	4.976443	0.849337
ER	4.072092	4.891521	1.928037	0.906641
FDI	12.79777	13.06668	12.54513	6.708618
CE	10.68934	14.83666	6.708618	3.422915

*Source: Author's Computation, 2024*

**Table 4.2:** Correlation Matric

Variable	MC	CE	ER	FDI
MC	1			
MI	-0.28631	1		
	0.4226			
ER	0.564811	0.025062	1	
	0.0889	0.9452		
FDI	0.281026	-0.54656	-0.16639	1
	0.4315	0.1021	0.6459	
CE	-0.5404	0.465401	-0.64963	-0.17129
	0.1068	0.1753	0.0421	0.6361

*Source: Author's Computation, 2024*

We then look at the factors that influence Nigeria's capital market performance. The model displayed the outcomes of the ordinary least square estimation (OLS) approach together with

pertinent post-estimation techniques. The factors influencing Nigeria's capital market performance are examined in table 4.3 above. The results of the ordinary least square analysis of the independent variables in Table 4.4 indicate that the exchange rate has a negative coefficient of -0.006883, while corporate earnings, foreign direct investment, and macroeconomic indicators have positive coefficients of 0.041475, 0.593907, and 0.224152, respectively. At the 10% significant level, the positive coefficients of macroeconomic indices and company earnings are significant at 0.1. However, because their p-values are even higher than 0.1, additional variables like foreign direct investment and exchange rate are not statistically significant.

In particular, corporate earnings have a significant positive correlation with market capitalization, as seen by the significantly positive coefficients of corporate earnings. As a result, market capitalization will increase by 0.041475 percent points for every percentage point increase in company earnings, and vice versa. Additionally, the macroeconomic indicators' significantly positive coefficients indicate that market capitalization is significantly positively impacted by macroeconomic indicators. As a result, market capitalization will climb by 0.22415 percent points for every percentage point increase in macroeconomic indices.

According to the model's estimated R-squared, it accounts for roughly 57.7% of market capitalization changes. It is statistically significant, as indicated by the reported F-statistic of 1.140702 and p-value of 0.033482. This suggests that the model fits well and is statistically significant overall.

**Table 4.3:** Estimation for Market capitalization

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LCE	0.041475	0.193298	-0.214565	0.0386
LFDI	0.593907	0.750906	0.79092	0.4648
LMI	-0.006883	0.056752	-0.12128	0.9082
LER	0.224152	0.191721	1.169155	0.095
C	1.666532	10.32176	0.161458	0.8781
R-Squared	0.577141			
F-statistic	1.140702			
P (F-statistic)	0.033482			

**Source:** *Author's Computation, 2024*

In order to confirm that the fixed effect regression results of this study do not deviate from certain assumptions of the traditional linear regression model and are hence appropriate for drawing pertinent conclusions and generalizations, the paper then performs a number of post-estimation diagnostics. The autocorrelation test's outcome adheres to the Breusch-Godfrey LM test protocol. The test produced a p-value of 0.4357 and an F-statistic value of 1.109900. This indicates that the statistic is not significant because the test's p-value is higher than 0.05. As a result, at the 5% significance level, the serial correlation test's null hypothesis—that "there is absence of serial correlation"—is not rejected. This suggests that there are no issues with serial or auto correlation in the regression result. The heteroskedasticity test result, which was obtained by following the Breusch-Pagan-Godfrey test protocol, is shown in Table 4.8. The test produced a P-value of 0.9229 and an F-statistic of 0.208670. This indicates that the statistic is not significant because the test's p-value is higher than 0.05. Thus, at the 5% significance level, the null hypothesis of the heteroskedasticity test—that is, "there is constant variance"—is not rejected. This suggests that there is no heteroskedasticity issue with the regression result.

Table 4.4: Serial Correlation and Heteroskedasticity Tests

Panel A: Serial Correlation Test			
F-statistic	1.1099	Prob. F(2,3)	0.4357
Obs*R-squared	4.252652	Prob. Chi-Square(2)	0.1193
Panel B: Heteroskedasticity Test			
F-statistic	0.20867	Prob. F(4,5)	0.9229
Obs*R-squared	1.430551	Prob. Chi-Square(4)	0.8389
Scaled explained SS	0.435484	Prob. Chi-Square(4)	0.9795

**Note:** The Serial Correlation test is the Breusch-Godfrey Serial Correlation LM Test. The Heteroskedasticity Test is the Breusch-Pagan-Godfrey.

**Source:** *Author's Computation, 2024*

## 5. Conclusions

Stocks and other assets, including bonds, exchange trust funds, and commitment instruments, can be managed on the Nigerian capital market. Numerous elements, referred to as determinants, have an impact on the capital market and work together to shape its behavior and performance. These factors can be broadly divided into four categories: investor sentiment,

regulatory considerations, market-specific factors, and macroeconomic issues. The following goals are pursued by this study: (i) to investigate how the exchange rate affects the performance of the Nigerian capital market; (ii) to assess the impact of macroeconomic indicators on the Nigerian capital market's performance; (iii) to ascertain the effect of foreign direct investment on the market's performance; and (iv) to look into the impact of corporate earnings on the market's performance.

We discovered that corporate profits significantly boost Nigeria's economic market value. Market capitalization will rise in response to a rise in company earnings. Nigeria's economic market capitalization is significantly boosted by macroeconomic indicators. Market capitalization is negatively impacted by exchange rates. This implies that a rise in the exchange rate will cause market capitalization to decline.

Nigeria's market capitalization is positively impacted by foreign direct investment. This suggests that Nigeria's market capitalization will increase by one percentage point for every percentage point increase in foreign direct investment.

In light of these, we suggest the following: First and foremost, the government ought to enact laws and offer incentives that promote businesses' expansion and financial success. Tax incentives, easier access to funding, and rules that are business-friendly can all help achieve this. By regulating inflation, keeping interest rates low, and encouraging sustainable economic growth, the government can guarantee stable macroeconomic conditions. Additionally, efficiently coordinate fiscal and monetary policies to foster an atmosphere that is favorable to investment and economic stability. To reduce excessive exchange rate volatility, monetary policy tools and foreign exchange reserves should be used. Additionally, provide a more effective and transparent foreign exchange market to cut down on speculation and give precise information about changes in exchange rates. iv. Market capitalization will rise in response to an increase in foreign direct investment. The report suggests that the government create policies that draw in foreign direct investment, like lowering red tape, maintaining political stability, and offering alluring incentives to investors. To ensure a favorable climate for foreign investors, infrastructural development should be funded. To guarantee equitable procedures, safeguard investors, and preserve market integrity, strengthen the regulatory framework that oversees the capital market. Create a strong market infrastructure as well, such as technologically advanced trading platforms, to increase market transparency and efficiency.

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