ISA Journal of Business, Economics and Management (ISAJBEM)

Homepage: https://isapublisher.com/isajbem/

Volume 3, Issue 6, Nov-Dec, 2026 ISSN: 3049-1835

Impact of Economic Indicators on Stock Market Performance in Nigeria

Dr. Ajayi, John Ayodele & Adeleke, Israel Olaoluwa

Department Of Finance, Faculty of Management Sciences, University Of Lagos, Akoka, Yaba, Lagos Nigeria

Received: 25.09.2025 | **Accepted:** 29.10.2025 | **Published:** 16.11.2026

***Corresponding Author:** Adeleke, Israel Olaoluwa

DOI: *10.5281/zenodo.24278582*

Abstract **Original Research Article**

This study investigates the impact of selected macroeconomic indicators - exchange rate, inflation rate, interest rate, and financial deepening - on stock market performance in Nigeria from 1994 to 2024. Guided by the Efficient Market Hypothesis (EMH) and Macroeconomic Equilibrium Theory, the research employs the Autoregressive Distributed Lag (ARDL) model, Bounds cointegration test, and Error Correction Mechanism (ECM) using EViews 12 software to capture both short- and long-run dynamics. The All Share Index (ASI) serves as a proxy for stock market performance, while exchange rate (EXR), inflation rate (INF), interest rate (INT), and financial deepening (FID) represent the key macroeconomic variables. Empirical results reveal that the exchange rate ($p = 0.375$) and inflation rate ($p > 0.05$) exert no significant influence on stock market performance in both the short and long run. Conversely, interest rate displays a positive and statistically significant short-run effect ($\beta = 1421.55$; $p = 0.0215$), indicating that a one-percentage-point rise in interest rate corresponds to a 1,421-point increase in ASI, though this relationship fades in the long term (F-statistic = 2.27 < 5% critical bound = 5.07). Financial deepening, however, shows the strongest short-run effect ($\beta = 34{,}927.67$; $p = 0.0049$) and a meaningful adjustment mechanism (ECM = –0.42; $p = 0.0316$), implying that about 42% of disequilibrium is corrected annually. Overall, the findings suggest that Nigeria's stock market responds predominantly to short-term macroeconomic changes, reflecting shallow integration and low structural maturity. Policymakers should therefore strengthen financial intermediation, exchange rate transparency, and inflation management, while deepening the financial system to ensure long-term capital market stability.

Keywords: Stock Market Performance, Macroeconomic Indicators, ARDL, Error Correction Mechanism, Nigeria.

Copyright © 2026 The Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (CC BY-NC 4.0)

1. Introduction

The stock market is a vital barometer of economic performance and investment climate, serving both as a source of long-term financing for firms and a platform for wealth creation. In Nigeria, the Nigerian Exchange Group (NGX) has emerged as a key institution for mobilising capital and fostering investment opportunities. Yet, the performance of the stock market is heavily influenced by macroeconomic fundamentals such as exchange rates, inflation, interest rates, and the depth of financial intermediation. These factors directly shape investor confidence, liquidity, and stock price dynamics, thereby determining the stability and

attractiveness of capital markets (Olokoyo, Ibhagui and Babajide, 2020).

Despite its size and significance within Africa, the Nigerian stock market has been marked by volatility, downturns, and weak resilience in the face of shocks. Exchange rate fluctuations, driven by dependence on oil revenues, often discourage foreign participation and trigger capital flight (Dahunsi, 2023). Inflation erodes real returns, while high interest rates increase borrowing costs for firms, thereby dampening profitability and stock valuation (Abdull-Baseet, Seif, and Komba, 2025). Equally, financial deepening remains constrained by inadequate credit penetration, weak infrastructure, and regulatory bottlenecks, limiting the ability of markets to channel savings into productive investments (Tiamiyu, Odugbemi, and Adelaja, 2022). While existing literatures has examined these macroeconomic indicators individually, there remains limited understanding of their combined and interactive effects on stock market performance in Nigeria. Most studies adopt a narrow perspective, isolating one or two variables, thereby overlooking the broader macroeconomic ecosystem in which the stock market operates. This study addresses that gap by simultaneously examining exchange rate volatility, inflationary trends, interest rate movements, and financial deepening within a unified empirical framework. By doing so, it contributes to both academic discourse and policy debates on how macroeconomic stability can foster stronger capital market performance in emerging economies.

Given Nigeria's ongoing economic challenges - including inflationary pressures, foreign exchange shortages, rising interest rates, and persistent structural weaknesses - this research is timely and relevant. Its findings are expected to inform more effective monetary, fiscal, and financial sector policies aimed at improving investor confidence, deepening market efficiency, and enhancing the role of the stock market in supporting sustainable economic development

2. Literature Review

The performance of stock markets, particularly in emerging economies like Nigeria, is closely tied to macroeconomic fundamentals. Exchange rate, inflation, interest rate, and financial deepening are among the most critical variables shaping market performance. This section synthesizes empirical and theoretical insights from recent and past studies to contextualize the present analysis.

2.1 Exchange Rate and Stock Market Performance

Exchange rate fluctuations influence capital inflows, investor confidence, and corporate profitability. In Nigeria, the volatility of the naira-dollar exchange rate has been a recurring concern. Orisdare and Olofin (2024) found that exchange rate volatility significantly reduced stock returns, arguing that depreciation erodes investor confidence and deters foreign participation. Similarly, Ozigbo, Ekane, and Ujuju (2025) reported that exchange rate instability negatively affects stock market capitalization during periods of capital flight. Conversely, Adebisi et al., (2025) identified no long-term link between the exchange rate and Nigerian equities, attributing the weak relationship to low foreign investor participation and structural inefficiencies. These divergent results suggest that the exchange rate–stock market nexus in Nigeria is context-dependent, influenced by the level of foreign involvement and prevailing policy frameworks.

2.2 Inflation and Stock Market Performance

Inflation affects equities primarily by altering the real value of investment returns and corporate costs. While moderate inflation can boost revenues for firms, persistent double-digit inflation has been associated with declining equity attractiveness in Nigeria. Tiamiyu, Odugbemi, and Adelaja, (2022) demonstrated that a 1% increase in inflation caused a 0.7% decline in stock returns. Similarly, Jelilov et al. (2020) argued that high inflation shifts investors toward safer assets such as real estate and gold. However, some studies, such as Alugbuo and Eze (2020), found that inflationary impacts on stock performance were statistically insignificant, citing low market depth and weak

investor responses in Nigeria. These inconsistencies highlight the role of structural features of the Nigerian market—particularly liquidity constraints—in shaping how inflationary shocks are transmitted into equity prices.

2.3 Interest Rate and Stock Market Performance

Interest rates affect both the cost of capital for businesses and the relative attractiveness of equities compared to fixed-income securities. Adekunle et al., (2025), using an ARDL framework, established that interest rates exert significant short-term effects on Nigerian stock returns, although no stable long-term cointegration was found. Similarly, Abdull-Baseet, Seif, and Komba (2025) confirmed that rising interest rates redirect investment away from equities toward bonds, reducing liquidity and trading volume. Orisdare and Olofin (2024) quantified this effect, showing that a 1% rise in the monetary policy rate reduced the stock index by 1.2%. However, some evidence points in the opposite direction: Maku and Atanda (2009) observed that under certain monetary conditions, higher rates could coincide with improved equity performance, reflecting speculative investor behavior. This duality underscores the complex transmission mechanisms of interest rate shocks, often mediated by liquidity, investor expectations, and monetary credibility.

2.4 Financial Deepening and Stock Market Performance

Financial deepening - the expansion of financial institutions, markets, and instruments - enhances capital market efficiency by broadening access to credit and investment opportunities. In Nigeria, the link between financial deepening and stock market performance has drawn increasing attention. Tiamiyu, Odugbemi, and Adelaja, (2022) showed that a 10% rise in private sector credit increased stock market capitalization by 4.5%. Similarly, Olokoyo et al. (2020) emphasized the role of financial inclusion and fintech innovations in strengthening stock market liquidity and accessibility. However, Adekunle et al., (2025) cautioned that despite positive short-term impacts, structural weaknesses such as low credit penetration and poor regulatory enforcement limit long-term benefits. These findings align with Levine's (2005) theoretical argument that financial development fosters economic growth, but only when institutions and regulatory frameworks are robust enough to sustain efficiency gains.

2.5 Synthesis and Research Gap

The reviewed studies show that macroeconomic variables exert uneven effects on Nigerian stock market performance. While exchange rate volatility and inflation often appear detrimental, their effects are not consistently significant across methodologies and periods. Interest rates exhibit clearer short-term impacts, but the evidence on long-run relationships remains inconclusive. Financial deepening consistently shows positive effects, though its benefits appear transitory in the Nigerian context due to structural inefficiencies.

Two research gaps emerge. First, existing studies often analyze variables in isolation, limiting the ability to capture interactive or simultaneous effects of macroeconomic shocks. Second, most findings are sensitive to time frames and methodological choices, suggesting a need for more comprehensive, updated, and robust econometric approaches. Addressing these gaps, the present study applies the ARDL bounds-testing framework to simultaneously examine the effects of exchange rate, inflation, interest rate, and financial deepening on Nigeria's stock market performance from 1994 to 2024.

3. Objectives of the Study

The aim of the study is to examine the impact of economic indicators on stock market performance in Nigeria. While the specific objectives are to:

i. Examine the relationship between exchange rate and stock market performance in Nigeria.

ii. Determine the effect of inflation rate on stock market performance in Nigeria.

iii. Examine the impact of interest rate on stock market performance in Nigeria.

iv. Examine the relationship between financial deepening and stock market performance in Nigeria.

4. Research Hypotheses

$H0_1$: Exchange rate has no significant relationship with stock market performance in Nigeria.

$H0_2$: Inflation rate has no significant effect on stock market performance in Nigeria.

$H0_3$: Interest rate has no significant effect on stock market performance in Nigeria.

$H0_4$: Financial deepen has no significant relationship with stock market performance in Nigeria.

5. Methodology

5.1 Research Design

This study adopts a quantitative research design with an ex post facto approach, utilizing annual secondary time-series data for Nigeria covering 1994–2024. The design is appropriate for examining historical relationships between macroeconomic variables and stock market performance, where the researcher has no control over the data. The analysis focuses on four macroeconomic indicators - exchange rate (EXR), inflation rate (INF), interest rate (INT), and financial deepening (FD) - and their impact on stock market performance, proxied by the All Share Index (ASI) and market capitalization. This approach reflects established practices in macro-finance research in emerging markets (Kolawole, 2025).

Table 1: Description of variables

Variable	Proxy/Measurement	Description	Expected Effect on ASI
ASI (All Share Index)	Annual values of the Nigerian Exchange All Share Index	Dependent variable capturing overall stock market performance in Nigeria	N/A
EXR (Exchange Rate)	Official Naira/US Dollar rate (log-transformed)	Measures exchange rate stability/volatility. Depreciation can affect investor confidence and capital flows.	Negative
INF (Inflation Rate)	Annual percentage change in Consumer Price Index (CPI)	Captures purchasing power erosion and macroeconomic stability. High inflation may deter equity investment.	Negative
INT (Interest Rate)	Monetary Policy Rate (MPR), annual average (%)	Indicates the cost of borrowing and return on alternative investments. Higher rates can crowd out stock investment.	Negative (long-run), Positive (short-run)
FID (Financial Deepening)	Ratio of private sector credit to GDP	Proxy for financial development. Reflects efficiency of financial intermediation and access to capital.	Positive
MKT_CAP (Market	Total market capitalization of listed	Used in robustness checks to reflect market size and depth.	Positive

Capitalization)	firms (₦)		

Source: Authors' compilation

5.2 Data Sources

Data were obtained from reputable and widely recognized institutions to ensure reliability. Exchange rate, inflation, interest rate, and financial deepening indicators were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank's World Development Indicators (WDI). Stock market data, including ASI and market capitalization, were collected from the Nigerian Exchange Group (NGX) reports. These sources provide consistent and validated series commonly used in empirical financial economics (World Bank, 2022; CBN, 2023).

5.3 Model Specification

The study applies the Autoregressive Distributed Lag (ARDL) model, which is particularly suited for handling variables integrated of mixed orders, I(0) and I(1), without requiring pre-testing for uniform integration order. The general functional relationship is expressed as:

$$SMP_t = \beta_0 + \beta_1 EXR_t + \beta_2 INF_t + \beta_3 INT_t + \beta_4 FD_t + \varepsilon_t \quad \text{.....(3.2)}$$

Where:

- SMP_t = Stock Market Performance (ASI, MCAP)
- EXR_t = Exchange Rate at time t
- INF_t = Inflation Rate at time t
- INT_t = Interest Rate at time t

5.4 Estimation Techniques

The empirical procedure involved several steps. First, descriptive statistics summarized the data trends and variability. Second, unit root tests (Augmented Dickey-Fuller and Phillips-Perron) determined the stationarity properties of the series. Third, the ARDL bounds cointegration test was used to assess the existence of a long-run relationship among the variables. Where cointegration was established, the long-run coefficients were estimated; otherwise, attention was placed on short-run dynamics. Fourth, an Error Correction Model (ECM) was applied to capture short-run adjustments and the speed of convergence to long-run equilibrium.

5.5 Software and Diagnostics

All estimations were conducted using EViews 12. Diagnostic tests included the Breusch-Godfrey LM test for serial correlation, the Breusch-Pagan-Godfrey test for heteroskedasticity, the Jarque-Bera test for normality, and CUSUM/CUSUMSQ stability tests. These checks ensured that the models were statistically valid and empirically robust.

5.6 Limitations

The methodology is subject to certain limitations. Reliance on secondary data may introduce measurement inconsistencies. Structural breaks from oil price shocks, regulatory reforms, or global crises could affect the stability of the series. Moreover, while the focus is on macroeconomic indicators, other factors such as political risk, institutional quality, and investor sentiment are not explicitly modeled.

6. Results

6.1 Descriptive Statistics and Preliminary Tests

Table 2 presents the summary statistics for the study variables over the 1994–2024 period. The

average All Share Index (ASI) was 27,535.96 points, with a wide dispersion (standard deviation = 20,482.79), reflecting the volatility of the Nigerian stock market. Exchange rate (EXR) had a mean of ₦242.25/$, ranging from ₦21.88 to ₦1,535.00, consistent with Nigeria's persistent currency depreciation. Inflation (INF) averaged 17.16% with double-digit spikes, while interest rate (INT) averaged 12.67%, reflecting Central Bank of Nigeria's (CBN) monetary stance over the years. Financial deepening (FID), proxied by credit-to-GDP ratio, averaged 26.1%, indicating shallow financial intermediation compared to emerging market benchmarks.

Table 2: Summary Statistics (1994–2024)

Variable	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera (p-value)
ASI	27,535.96	24,775.59	99,523.17	1,913.23	20,482.79	1.43	6.06	1.2E-05
EXR	242.25	148.88	1,535.00	21.88	299.02	3.03	12.91	0
INF	17.16	12.9	72.84	5.4	14.33	2.68	10.04	0
INT	12.67	12.5	18.88	6	3.07	-0.15	3.4	0.854
FID	0.26	0.21	0.9	0.01	0.25	0.94	2.96	0.103
MKT_CAP	4.13E+10	3.28E+10	1.48E+11	2.37E+09	3.56E+10	1.06	3.84	0.034

Source: Authors' calculation

The stationarity results (ADF test) indicated mixed integration orders: INF was stationary at level [I(0)], while ASI, MKT_CAP, INT, and FID were I(1). EXR required transformation (log-differencing) to achieve stationarity. These results justify the choice of the Autoregressive Distributed Lag (ARDL) framework, which accommodates variables integrated of order I(0) and I(1).

6.2 Exchange Rate and Stock Market Performance

The ARDL (1) model tested the first objective:

Table 3: ARDL Results – ASI and Exchange Rate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASI(-1)	1.0836	0.1267	8.553	0
D_LOG_EXR	5927.042	6573.488	0.9017	0.3752
C	314.2947	3737.558	0.0841	0.9336

Source: Authors' calculation

Bounds test results as seen in Table 3 showed no cointegration (F-stat = 0.80 < critical values at 10%, 5%, 1%). Similarly, the ECM coefficient was insignificant, confirming no short- or long-run relationship between exchange rate and ASI. This finding suggests that exchange rate volatility does not significantly transmit to Nigeria's stock market, possibly due to shallow foreign participation and dominance of domestic investors (Adebisi et al., 2025). However, it contradicts Orisdare and Olofin (2024), who reported a significant negative effect of exchange rate volatility on Nigerian stock returns, and Ozigbo, Ekane, and Ujuju (2025), who found strong sensitivity of market capitalization to exchange rate shocks. Overall, our evidence supports H_{01}, implying that exchange rate fluctuations alone do not determine stock market performance in Nigeria.

6.3 Inflation and Stock Market Performance

The second objective examined inflation's impact.

Table 4: ARDL Results – ASI and Inflation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASI(-1)	1.1128	0.1253	8.8778	0
INF	168.678	158.549	1.0639	0.2968
C	-2250.08	4640.678	-0.4849	0.6317

Source: Authors' calculation

Bounds test results as seen in Table 4 showed no long-run cointegration (F-stat = 0.44 < critical value at 5%). Inflation was insignificant in both the ARDL and ECM regressions, suggesting that consumer price changes do not materially influence equity valuations.

This result aligns with Alugbuo and Eze (2020), who found inflation to be an insignificant predictor of Nigerian stock returns. However, it contrasts with Tiamiyu, Odugbemi, and Adelaja, (2022), who reported that a 1% increase in inflation reduces stock returns by 0.7%. The divergence may be explained by sample period differences and inflation persistence.

Thus, H_{02} is accepted — inflation does not significantly determine Nigerian stock market performance.

6.4 Interest Rate and Stock Market Performance

The third objective tested interest rate effects.

Table 5: ARDL Results – ASI and Interest Rate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASI(-1)	1.1032	0.1152	9.5726	0
INT	1421.552	582.397	2.4409	0.0215
C	-17358.4	8163.064	-2.1265	0.0428

Source: Authors' calculation

In Table 5, interest rate significantly and positively affects ASI in the short run. However, Bounds test results showed no cointegration (F-stat = 2.27 < lower bounds). The ECM coefficient was significant but positive (0.1032, p = 0.0390), suggesting short-run corrections may diverge rather than converge.

This result implies that while monetary policy signals (e.g., interest rate changes) influence short-term investor decisions, these effects are not sustainable. It supports findings Adekunle et al., (2025), who also observed short-run interest rate impacts on ASI. However, it contrasts with Ozili (2021), who found long-run interest rate–market cointegration. Thus, H03 is partially rejected: interest rate affects ASI in the short run but not in the long run.

6.5 Financial Deepening and Stock Market Performance

The fourth objective tested financial deepening.

Table 6: ARDL Results – ASI and Financial Deepening

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASI(-1)	0.9913	0.2349	4.2199	0.0003
ASI(-2)	-0.4111	0.2317	-1.7745	0.0882
FID	34927.67	11304.38	3.0897	0.0049
C	3632.04	3609.446	1.0063	0.3239

Source: Authors' calculation

FID significantly increases ASI in the short run (p = 0.0049). ECM results confirm significance (p = 0.0034), with -0.4198 speed of adjustment, implying ~42% correction annually (Table 6). Yet, Bounds test results show no cointegration (F-stat = 2.49 < critical values).

This suggests that while financial deepening boosts stock market activity in the short run, structural weaknesses prevent long-term integration. The finding aligns with Tiamiyu, Odugbemi, and Adelaja, (2022), who found short-run financial deepening effects, but contradicts Levine (2005),

who argued financial deepening drives sustained growth in capital markets.

Thus, H_{04} is partially rejected: financial deepening matters in the short run, but not in the long run.

6.6 Error Correction Model

Table 7: Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Interpretation
Objective 1: Exchange Rate (D_LOG_EXR → ASI)					
D_LOG_EXR	5927.042	6422.073	0.9229	0.3642	Not significant
CointEq(-1)	0.0836	0.0648	1.2896	0.2081	No meaningful correction
Objective 2: Inflation (INF → ASI)					
INF	168.678	158.549	1.0639	0.2968	Not significant
CointEq(-1)	0.1128	0.1253	0.8996	0.3763	No meaningful correction
Objective 3: Interest Rate (INT → ASI)					
INT	1421.552	524.951	2.708	0.0116	Significant (short run)
CointEq(-1)	0.1032	0.0476	2.1692	0.039	Significant but wrong sign (positive)
Objective 4: Financial Deepening (FID → ASI)					
FID	34927.67	10786.57	3.2381	0.0034	Significant (short run)
CointEq(-1)	-0.4198	0.1844	-2.277	0.0316	Significant, correct sign (−), 42% adjustment per year

Source: Authors' calculation

The consolidated ECM results (Table X) provide a clear overview of the short-run dynamics and adjustment mechanisms between macroeconomic indicators and stock market performance in Nigeria. For exchange rate (Objective 1), the ECM regression shows that the coefficient of D_LOG_EXR (5927.042; p = 0.3642) is not statistically significant. Similarly, the error correction term (0.0836; p = 0.2081) is insignificant, indicating that exchange rate fluctuations do not exert meaningful short-run or long-run corrective influences on the Nigerian stock market.

For inflation (Objective 2), the coefficient of INF (168.678; p = 0.2968) is also statistically insignificant, suggesting that inflation does not directly influence stock market returns in the short run. The error correction term (0.1128; p = 0.3763) is insignificant, confirming the absence of a

meaningful long-run correction process between inflation and stock market performance. In contrast, interest rate (Objective 3) displays a statistically significant short-run effect on the stock market, with a coefficient of 1421.552 (p = 0.0116), indicating that a one-unit increase in interest rates is associated with a 1,422-point rise in the ASI. Interestingly, the error correction term is significant (0.1032; p = 0.0390) but incorrectly signed (positive), which suggests model instability. Rather than correcting disequilibrium, shocks to the interest rate may exacerbate deviations from long-run equilibrium, consistent with speculative or liquidity-driven responses in the Nigerian market.

Finally, financial deepening (Objective 4) demonstrates the strongest results. The FID coefficient (34,927.67; p = 0.0034) is highly significant, confirming that improvements in financial deepening significantly drive stock market performance in the short run. Importantly, the error correction term (−0.4198; p = 0.0316) is negative and significant, indicating a valid correction mechanism. Approximately 42% of short-run disequilibrium is corrected each year, meaning the system reverts to long-run equilibrium within about 2.4 years. Overall, the ECM results highlight the Nigerian stock market's sensitivity to short-term shocks (interest rates and financial deepening), but its weakness in sustaining long-run equilibrium with macroeconomic fundamentals.

6.7 Synthesis of Findings

Across all objectives, a clear pattern emerges:

- Exchange rate and inflation: insignificant in both short and long run.
- Interest rate: significant short-run effect, no long-run cointegration.
- Financial deepening: strong short-run effect, no long-run cointegration.

These results imply that Nigeria's stock market is more responsive to short-term monetary and financial signals than to long-run macroeconomic fundamentals. This reflects its structural underdevelopment, limited foreign participation, and shallow financial system.

The findings support recent studies emphasizing the fragile and short-term nature of macroeconomic influences in emerging stock markets (Adebayo & Ogunleye, 2023; Adekunle et al., 2025). Policy-wise, the results suggest that Nigeria requires deep financial reforms, consistent monetary policies, and better macroeconomic stability to enable its stock market to function as a true barometer of economic performance.

7. Conclusion

This study examined the impact of key macroeconomic indicators—exchange rate, inflation, interest rate, and financial deepening—on stock market performance in Nigeria, using annual data from 1994 to 2024 and applying the ARDL bounds testing framework. The empirical evidence revealed that the exchange rate and inflation had no statistically significant influence on the Nigerian stock market in either the short run or long run. Conversely, interest rate exerted a significant short-run effect but lacked a long-term relationship with stock market performance. Financial deepening was found to have a strong and positive short-run impact on stock market performance, though the relationship did not extend to the long run. Collectively, these findings highlight the sensitivity of the Nigerian stock market to short-term macroeconomic signals but also underscore its structural weaknesses and lack of integration with long-term fundamentals.

8. Policy Implications

The results provide important lessons for policymakers, regulators, and investors. First, the insignificant role of exchange rate fluctuations suggests that efforts should focus on exchange rate stability through coherent monetary and fiscal coordination, which would enhance investor confidence and deepen market integration with global capital flows. Second, the weak inflation effect signals that monetary policy alone may not deliver stock market stability; complementary structural reforms, such as addressing supply-side inflation drivers and improving production

efficiency, are required. Third, the significant but short-lived role of interest rates implies that monetary authorities, particularly the Central Bank of Nigeria, should balance between tightening policies to curb inflation and ensuring credit availability for investment and productive activities that ultimately feed into market growth. Finally, the strong short-run impact of financial deepening highlights the importance of enhancing financial inclusion, improving credit access, expanding fintech innovation, and diversifying capital market instruments to foster sustainable stock market performance.

8.1 Theoretical and Practical Implications

The findings extend the literature on stock market–macroeconomic linkages in emerging economies by showing that Nigerian market dynamics are more responsive to short-run shocks than to long-run fundamentals. This challenges conventional efficient market hypotheses and supports the argument that structural bottlenecks, regulatory inefficiencies, and low market depth weaken the transmission of macroeconomic variables to equity performance. Practically, the study informs investors that short-term macroeconomic trends—such as changes in interest rates or liquidity from financial deepening—can provide actionable signals for market timing, while long-run investment strategies require careful diversification and hedging against persistent macroeconomic uncertainties.

9. Limitations and Suggestions for Further Studies

This study is not without limitations. First, the analysis was restricted to four macroeconomic indicators, leaving out other potential determinants of stock market performance such as oil prices, political risk, and global financial shocks. Second, the annual frequency of the data limited the granularity of the results; higher-frequency data (quarterly or monthly) could provide deeper insights into short-term dynamics. Third, the ARDL methodology, while powerful, focuses on linear relationships and may not capture potential nonlinearities or asymmetric effects.

Future research should therefore extend the scope by incorporating additional explanatory variables, including commodity prices, foreign portfolio investment flows, and institutional quality indicators. Methodologically, subsequent studies could employ nonlinear ARDL, structural VAR, or machine-learning-based predictive models to uncover hidden dynamics. A comparative cross-country analysis involving other African emerging markets could also provide valuable regional insights into how macroeconomic shocks interact with capital market performance under different institutional frameworks.

References

Tiamiyu, K. A., Odugbemi, T. H., & Adelaja, A. O. (2022). Financial deepening and stock market development in Nigeria: Evidence from recent data (1981–2019). Acta Economica (Œconomica), 18(2), 159–174. Retrieved from https://www.researchgate.net/publication/361769006_Financial_Deepening_and_Stock_Market_Development_in_Nigeria_Evidence_from_Recent_Data_1981-2019

Dahunsi, O. J. (2023). Exchange rate volatility, foreign private investment and performance in Nigeria's capital market. [Unpublished manuscript]. Retrieved from https://www.researchgate.net/publication/366877954_Exchange_Rate_Volatility_Foreign_Private_Investment_and_Performance_in_Nigeria%27s_Capital_Market

Olokoyo, F. O., Ibhagui, O. W., & Babajide, A. A. (2020). Macroeconomic indicators and capital market performance: Are the links sustainable? Cogent Business & Management, 7(1), 1792258. https://doi.org/10.1080/23311975.2020.1792258

Abdull-Baseet A., Seif, G., & Komba, G. (2025). Impact of macroeconomic variables on stock market prices in Sub-Saharan Africa.

International Journal of Finance, 10(1), 10-30. https://doi.org/10.47941/ijf.2467

Adekunle, P., Olutope, O., Muhammad, R. A., Ogbuehi, F., & Igweze, A. H. (2024). Impact of interest rate, exchange rate and inflation on stock market dynamics in Nigeria. International Journal of Economics Finance & Management Sciences, 12(6), 352–362. https://doi.org/10.11648/j.ijefm.20241206.11

Alugbuo, J. C., & Eze, E. (2020). Selected macroeconomic indicators and stock market performance in a developing economy: A case for the Nigeria Stock Exchange Market. The International Journal of Business & Management, 8(2), Article BM2002-026. https://doi.org/10.24940/theijbm/2020/v8/i2/BM2002-026

Orisdare, M. A., & Olofin, S. (2024). Exchange rate volatility and productivity in Nigeria: An empirical analysis. Asian Journal of Economics, Business and Accounting, 24(6), 240-250. https://doi.org/10.9734/ajeba/2024/v24i61357

Ozigbo, S., Ekane, R. O., & Ujuju, L. E. (2025). Exchange rate fluctuations and economic growth in Nigeria: An empirical analysis. International Journal of Economics & Financial Issues, 15(2), 252–259. https://doi.org/10.32479/ijefi.17833

Jelilov, G., Iorember, P. T., Usman, O., & Yua, P. M. (2020). Testing the nexus between stock market returns and inflation in Nigeria: Does the effect of COVID-19 pandemic matter? Journal of Public Affairs, 20(3), e2289. https://doi.org/10.1002/pa.2289

Levine, R. (2005). Finance and growth: Theory and evidence. In P. Aghion & S. Durlauf (Eds.), Handbook of Economic Growth (Vol. 1, pp. 865–934). Elsevier. https://doi.org/10.1016/S1574-0684(05)01012-9

Maku, O. E., & Atanda, A. A. (2009). Does macroeconomic indicators exert shock on the Nigerian capital market? International Research Journal of Finance and Economics, 35, 168–178. https://www.sciencedirect.com/science/article/pii/S1574068405010129

Adebisi, A. M., Odesola, O. T., Aromona, K., & Oyenekan, B. (2025). Exchange rate volatility, stock market dynamics and foreign direct investment in Nigeria (2002-2023). Journal of Economics, Finance and Accounting, 12(1), 54-70. https://doi.org/10.17261/Pressacademia.2025.1981

Central Bank of Nigeria (CBN). (2023). Statistical Bulletin, 2023 edition. Abuja: Central Bank of Nigeria. https://www.cbn.gov.ng/out/2024/std/2023q3%20statistical%20bulletin_contents%20and%20narratives_final.pdf

Kolawole, K. D. (2025). Macroeconomic variables and stock market performance in Nigeria. Gusau Journal of Accounting and Finance, 6(2), 284-294. https://doi.org/10.57233/gujaf.v6i2.18

Pesaran, M. H., Shin, Y., & Smith, R. J. (2001). Bounds testing approaches to the analysis of level relationships. Journal of Applied Econometrics, 16(3), 289–326. https://doi.org/10.1002/jae.616

World Bank. (2022). World Development Indicators (WDI). Washington, DC: World Bank. https://databank.worldbank.org/source/world-development-indicators