ABSTRACT

Nairobi Stock exchange (NSE) is playing a vital role in the growth of Kenya's economy by encouraging savings and investment, as well as helping local and international companies' access cost-effective capital. NSE operates under the jurisdiction of the Capital Markets Authority of Kenya. Presently, NSE's market capitalization closed at Sh1.976 trillion compared to the Sh1.986 trillion value in December 2022, representing a 0.49 per cent depreciation. The purpose of this study was to examine the effects of macroeconomic variables on stock market performance a case of Nairobi securities exchange. The study was guided by the following specific objectives; to find out the effect of changes in exchange rates on stock market performance at the NSE; to examine the effect of inflation rates on stock market performance at the NSE; to establish the effect of economic growth rate on stock market performance at the NSE; to determine the effect of changes in interest rates on stock market performance at the NSE and to establish the moderating effect of savings on the relationship between the macroeconomic variables and stock market performance. To conduct the study, the researcher adopted a correlational research design and relied on secondary data collected from the annual reports of the Kenya National Bureau of Statistics, Nairobi Securities Exchange, and Central Bank of Kenya for the period 2000-2021. The collected data was analyzed using Pearson correlation analysis and time series multiple regression analysis. E-Views version 9.0 software was utilized for the analysis. The Pearson correlation matrix was used to assess the strength of the relationship between stock market performance and macroeconomic variables. Additionally, a time series data model (ARDL-ECM) was employed to determine both short-term and long-term effects of macroeconomic variables on the NSE's stock market performance. The study also examined the moderating effect of gross domestic savings through Baron and Kenney stepwise regression. Furthermore, classical linear regression and ARDL bound tests were performed to establish the existence of a long-term co-integration relationship between macroeconomic variables and stock market performance. The study results finding show that the R-squared value of 0.948827 suggests that the independent variables explain about 94.9% of the variation in market capitalization, which is a strong fit. The adjusted R-squared value of 0.861103 is lower than the R-squared value, suggesting that some of the independent variables may not be adding significant explanatory power to the model. The findings of the study indicate that interest rates, inflation rates, and economic growth rate have significant effects on stock market performance, as represented by market capitalization, in the long run. However, no statistically significant impact was found for exchange rates. On the moderating variable Gross domestic savings was found not to be a significant predictor of stock market performance on the NSE in Kenya. These findings highlight the crucial role played by macroeconomic factors in shaping the NSE's stock market performance. In conclusion, the study suggests that interest rates, inflation rates, and economic growth rate are important determinants of stock market performance at the NSE. Policymakers are advised to consider the interplay between macroeconomic variables and stock market performance, and implement appropriate policies and measures to manage exchange rates, inflation rates, economic growth, and interest rates. This will create a stable and supportive environment for the NSE and foster sustainable stock market growth. The study also suggests that future research could explore the effects of other macroeconomic variables on stock market performance.