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MACROECONOMIC RISK AND FINANCIAL MARKET PERFOMANCE IN NIGERIA

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ABSTRACT

This study examined the effect of macroeconomic risk and financial market performance in Nigeria. The correlational research design was employed and secondary data was sourced from the Nigerian economy for fifteen years (2010-2024) from the reports of the Central Bank of Nigeria statistical bulletin and the National Bureau of Statistics. The Pearson correlation coefficient and multiple regression analysis were utilized with the aid of Stata12 software. The study revealed that exchange rate risk and interest rate risk significantly related with market share capital. Also, exchange rate risk and interest rate risk have a significant relationship with GDPR whereas GDPR had an insignificant relationship. Based on the findings, the study concluded that there is a significant relationship between Macroeconomic risk and financial market performance in Nigeria. It was recommended that Government and its agencies should work to ensure reduction in exchange rate to enhance increase in gross domestic product (GDP), growth and improve market share capital in the country's financial market. Government should make efforts to reduce interest rates and even give grant to newly established companies as this will improve Gross Domestic Product (GDP) growth and market share capital. Government should ensure reduction in tax rate so as to increase Gross Domestic Product (GDP) growth and improved market values of shares.

Keywords: Macroeconomics Risk, Financial Markets, Performance, Gross Domestic Product.

INTRODUCTION

Financial market is critical to economic development as they facilitate capital mobilization and efficient allocation of resources, however their performance is highly sensitive to macroeconomic condition particularly in developing economies like Nigeria. For suitable growth, macroeconomic stability is essential especially in developing nation where external shocks can have profound effect. Our economy is highly based on oil earrings, making it venerable to fluctuation to risk such as exchange rate, inflation pressure and imbalance in domestic fiscal policy, Adediran & Alade (2021). According to Vincent (2025) every modern economy is supported by it financial market which carry out vital tasks like risk management, liquidity provision and resource allocation. Financial market is essential for promotion investment economic growth and the effective distribution of capital in developing nation like Nigeria, However, due to macroeconomic risk

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which are every day posing fear to investors, the performance of financial market seem to be slowing. This risk includes both external & internal causing instability, eroding market confidence and delaying economic growth.

Macroeconomic risk arises from fluctuations in key economic indicators such as inflation, exchange rate, interest rate, output growth and political situation. This variable influence investment decision, asset pricing and market returns, therefore investors usually try to identify and analyses macroeconomic variables in the economy that can have a significant effect on their future to manage their risks. The influence of macroeconomic risk on financial market performance arises the inset of both economist and investors, Baraket el at (2016) as quoted in Elijah et al (2025). This interest helps to get the attention of policy makes and market participant who help to forecast the oval effect of these economic indicators and incorporate them with their policy decision. The investors and the entire populace also benefit from it since the awareness will help the investors to make informed investment decision while members of the public prepare to adjust for the shock it might bring.

The Nigerian economy, like most emerging markets, is characterized by persistent macroeconomic fluctuations and financial market vulnerabilities that jointly shape its growth trajectory and stability (Ososuakpor, 2021). In recent years, the country has witnessed heightened volatility in key economic indicators such as inflation, exchange rates, oil prices, government policies, and output growth, alongside recurrent financial market disturbances (Oyadeyi, 2024). These factors distort production, weaken investor confidence, and constrain economic performance. Thus, macroeconomic uncertainty is the unpredictability of broad economic variables such as inflation, interest rates, exchange rates, and output growth (IMF, 2013). It arises when the future state of the economy becomes difficult to forecast, thereby influencing investment and consumption decisions (Montes, 2010). According to Knight (1921), most real-world decisions occur under true uncertainty, where probabilities cannot be objectively assigned, and subjective judgment dominates. In Nigeria, such uncertainty often stems from erratic fiscal and monetary policies, political instability, oil price shocks, and exchange rate volatility (Ososuakpor, 2021). The interaction between macroeconomic uncertainty and financial market risks is complex and might be mutually reinforcing. According to Basel Committee on Banking Supervision (BCBS), (2019), financial market risks represent potential losses due to adverse movements in asset prices, interest rates, credit quality, liquidity, and exchange rates. These risks are intensified by macroeconomic instability and institutional weaknesses, making financial markets highly vulnerable to both domestic and global shocks (IMF, 2020). Stock market volatility, interest rate fluctuations, credit defaults, liquidity shortages, and exchange rate swings are common features that undermine market confidence and investment flows in Nigeria (Uhunmwangho & Izekor, 2024). Given Nigeria's susceptibility to policy shocks, external imbalances, and structural weaknesses, understanding the nexus between financial market risks and macroeconomic uncertainty is relevant to ensuring economic stability.

Macroeconomic risk is commonly associated with fluctuation in key economic variable such as interest rate, equity price exchange rate and inflation. These variables influence the valuation of financial assets and liability for instance rising inflation increase production cost and reduces consumer purchases by making investors to be at a lost.

According to Ihujba & Okorafor (2023) the Nigeria economy is highly vulnerable to external shocks particularly fluctuation in global oil price and exchange rate instability which transmit volatility to domestic financial market and corporate activities such macroeconomic disturbance can influence the stability of financial market and also affect firms operating within the economy.

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Nigeria financial market has undergone significantly reforms yet it remains vulnerable to macroeconomic shocks which include Persistence inflation pressure, Exchange rate instability and Monetary policy fluctuation

These risks create uncertainty, discourage investment and reduce market efficiency therefore examining the macroeconomic risk on the financial market performance in Nigeria is important for providing empirical evidence that can guide risk management strategies and policy formulation aimed at improving corporate stability and economic growth.

Statement of Problem

Nigeria's macroeconomic environment remains highly unstable, raising significant concerns about its relationship with financial market risks (Oyadeyi, 2024)). Empirical evidence indicates that inflation rose to about 32% in 2024 and is projected to reach as high as 37% in 2026, underscoring persistent price instability (IMF, 2025). In addition, exchange rate pressures following recent currency reforms have triggered sharp naira depreciation and sustained volatility, with exchange rate weakening to around ₦1,500 per US dollar in 2024 to 2025, thereby affecting investors' confidence and heightening exposure to market risks (IMF, 2025). Although the economy has recorded modest GDP growth of approximately 3.87% in 2025, such growth remains fragile and insufficient in the face of recurring external shocks and structural constraints (CBN, 2025). Recent developments, including persistent inflationary pressures, with inflation reaching 24.23% in March 2025, and fuel price increases following subsidy removal, further show the unpredictability of macroeconomic indicators in Nigeria (NBS, 2025). These macroeconomic instabilities transmit into the financial system through increased stock market volatility, rising interest rates, liquidity pressures, and heightened credit risk which may in turn result in output uncertainty in Nigeria. In view of the Nigeria's exposure to policy shocks, external imbalances, and structural constraints, it becomes imperative to systematically examine the relationship between financial market risks and macroeconomic uncertainty as a basis for promoting economic stability. In Nigeria, prior works such as Arodoye (2012), Omorokunwa and Ikponmwosa (2014), Ogiemudia et al. (2022), Uhunmwangho and Izekor, (2024), largely examine exchange rate volatility, inflation uncertainty, or policy uncertainty in relation to growth or stock returns, with limited integration of multiple financial market risk dimensions. Although Eregha and Ndoricimpa (2019) and Oyadeyi (2024) consider macroeconomic uncertainty, they do not explicitly analyze how output uncertainty transmits simultaneously to liquidity, stock market, interest rate, and credit risks. Against this background, this study fills this gap by employing Volatility and uncertainly this study fill that gap.

Objective of the Study

The main objective is to examine the impact of macroeconomic risk on financial market performance in Nigeria. Specific objectives of this study are to:

1. Examine the effect of interest rate risk on financial market performance
2. Examine the effect of exchange rate risk on financial market performance

Research Hypotheses

Ho1: Interest rate risk has no significant effect on fincial market performance

Ho2: Exchange rate risk has no significant effect on financial performance

LITERATURE REVIEW

2.1 Conceptual Review

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Macroeconomic Risk

Macroeconomic risk or macro risk are fincial risk that are associated with macroeconomic or political factors. They can be referred in different ways that they are applied, it can be referred to economic or fincial risks found in stocks and funs, to political risk found in different countries. Macroeconomic risk can also be economic factor which influences the volatility over time of investments assets portfolios and intrinsic value of companies.

Macroeconomic risk are associated with stocks funds and portfolios which is usually of concern to financial planner's securities, traders and investors. Some of the macroeconomic variables that generate Marco risk include unemployment rate, price indexes monetary policy variable interest rate exchange rate, agricultural export and even prices of raw material such as gold. By understanding that macro risk factors influence the intrinsic value of a particular investment is important because the factors change the values of which errors can be introduced.

No one can predict exactly what will happen in the future. But in order to make every day economic decisions, people use information around them to form judgements about what might happen. These judgements carry uncertainty over the likelihood of alternative outcomes. According to Montes (2010), uncertainty is a feature of the real world that influences the decision-making process of economic agents. Knight (1921), argued that most real word decisions, especially those in business, are made under true uncertainties, where probabilities cannot be objectively assigned, and thus subjective judgement plays a crucial role. In contrast to measurable risk where probabilities are known, uncertainties describe situations where outcomes such as inflation or GDP lack credible probability assignments (Knight, 1921) Macroeconomic uncertainty is the environment in which little or nothing is known about the future state of the economy (IMF, 2013). It is the unpredictability of broad economic variables (GDP, Inflation, Interest rate, employment, etc.). Jurado et al. (2015) captured macroeconomic uncertainties statistically as the conditional volatility of forecast errors across many macro variables. Since the work of Keynes on "The General Theory of employment, Interest and Money in 1936", several theoretical and empirical studies have been devoted to the analyses of the impact of uncertainty shocks on the economy. Uncertainty has a considerable connection with questions of probability, volatility, expectations and stability (in both macroeconomic and financial variables) and plays a critical role in the transmission and effectiveness of monetary policy. In the literature, the measurement of macroeconomic uncertainty has been approached in three major ways; Market-based proxies, text and news-based indices, and the model/statistical based method (Dibiasi & Sarferaz, 2023). The market-based measures rely on financial market volatility indicators, such as stock return volatility or implied volatility indices, which provide timely information but are often more reflective of financial sector perceptions than of the real economy. The text and news-based indices, such as the Economy Policy Uncertainty (EPU) index, capture the frequency of references to policy uncertainty in media coverage and have been used to gauge the policy driven dimension of uncertainty, though they are susceptible to media-related biases. The more data intensive approach is the model-based method advanced by Jurado et al. (2015), who construct a broad measure of macroeconomic uncertainty by computing the conditional variance of forecast errors across numerous macroeconomic series (Dibiasi & Sarferaz, 2023). This approach isolates the unforecastable component of economic variation and is considered one of the most comprehensive measures of macroeconomic uncertainty. Macroeconomic uncertainty in Nigeria arises from erratic fluctuations in key indicators such as inflation, interest rates, exchange rates, output growth, and policy unpredictability (e.g., sudden central bank interventions, election-related shifts, oil price shocks) (Ososuakpor, 2021). These uncertainties adversely affect sectors differently, weakening output in agriculture, manufacturing, services, and real estate, and undermining economic

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resilience (Oyadeyi, 2024). Notably, inflation rate, exchange-rate, interest-rate, and real GDP volatility substantially impede both short- and long-run sectoral performance (Oyadeyi, 2024). Empirically there are a handful components of macroeconomic uncertainty, however, this study shall adopt output uncertainty as a measure of macroeconomic uncertainty. This is consistent with a number of economists who took close look at economic volatility and uncertainty via the lenses of production (Bredin & Fountas, 2005). Output uncertainty covers demand and production unpredictability that drives investment decisions. Researchers derive these components either by fitting conditional variance models (GARCH/EGARCH) growth residuals or by computing forecast-error variances (Dibiasi & Sarferaz, 2023). Therefore, this study measure of macroeconomic uncertainty is defined as the residual, time-varying unpredictability in output growth, as captured by the conditional standard deviation of their residuals using GARCH model.

Another way macro risk can be used is to differentiate between countries as potential placed to invest. In this meaning the level of a country's Marco risk differs relatively to its level of political stability and its general opportunities from those of other countries and thus help identify potentials countries for investment either directly or through country of originally oriented. This kind of analysis of political risk is used for purpose of credit insurance on forging and other fincial analysis such as credit default.

Key Components of Macroeconomic Risk

- **Monetary & Fiscal Policy Shifts:** Changes in interest rates by central banks or government adjustments to taxes and spending, which can reduce profitability and increase cost of capital.
- **Currency Fluctuations:** Volatility in exchange rates can severely impact multinational companies' revenues and the cost of imports/exports.
- **Inflation & Deflation:** Unpredictable changes in the cost of living and production that affect consumer demand and input costs.
- **Political Instability & Regulatory Changes:** Risks include sudden changes in laws, expropriation of assets, high tariffs, or civil unrest that disrupt operations.
- **Economic Growth Shocks:** Drastic slowdowns in GDP growth can reduce asset values nationwide.

Financial Market Risks

In today's financial environment, investors are increasingly exposed to a wide range of risks in the financial ecosystem that continue to threaten their investments and challenge their portfolio stability (Adediran et al., 2021). The traditional financial assets, especially conventional stocks, bonds, fiat currencies, and cryptocurrencies have been mainly proven inadequate to mitigate the complex risks posed by economic challenges such as macroeconomic and policy uncertainties, and geopolitical tensions, the escalating impacts of climate change, as well as the endemic financial market systemic risk (Boubaker et al., 2022). Classic accounts of economic boom and bust cycles (Keynes (1937); Minsky (1977); Kindleberger (1978)) highlight the importance of financial markets in shaping economic fluctuations. In these accounts, a negative fundamental shock causes perceptions of risk to rise. Investors then value the safety of bonds and charge risky firms a high cost of capital. As a result, real interest rates are low, firms invest less, and a recession ensues. Financial market risks are the potential for losses that arise from adverse movements in financial variables such as asset prices, interest rates, exchange rates, and credit quality (Basel Committee on Banking Supervision [BCBS], 2019). These risks represent an important aspect of financial system vulnerability and are often interrelated, with shocks in one domain transmitting to others

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(IMF, 2020). This study therefore, categorizes financial market risks relevant to the Nigerian financial market into liquidity risk, stock market risk, interest rate risk, and credit risk.

Liquidity Risk

Liquidity risk arises when market participants cannot transact without large price discounts (market liquidity risk) or when financial institutions struggle to obtain funding at reasonable costs (funding liquidity risk). In periods of stress, liquidity shortages amplify other risks by constraining credit supply and triggering asset fire sales (CBN, 2023; World Bank, 2024). Stock market risk arises from fluctuations in equity prices, which affect both institutional and retail investors' portfolios. In emerging economies like Nigeria, stock market volatility is closely linked to macroeconomic shocks and policy uncertainty, making equity prices highly sensitive to both domestic and global developments (Uhunmwangho & Izekor, 2024).

Interest Rate Risk

Interest rate risk stems from changes in interest rates that alter the valuation of bonds, equities, and other financial instruments. The rising rates depress bond and equity prices, while also raising borrowing costs for firms and households. This risk is particularly significant in Nigeria where high and volatile inflation drives interest rate uncertainty (IMF, 2020). Credit risk is the possibility that borrowers or counterparties fail to meet their contractual obligations. In Nigeria, credit risk is heightened by macroeconomic volatility, inflationary pressures, and exchange rate depreciation, all of which undermine firms' repayment capacity (Offiong et al., 2019). Financial market risks are intricately linked with macroeconomic uncertainties. Volatility models (that is, GARCH) and forecast error variance methods are frequently used to construct uncertainty indices and to decompose the drivers of market volatility (Oyadeyi, 2024). This study adopts the GARCH model to examine the relationship between financial market risks and macroeconomic uncertainties in Nigeria.

2.2. Empirical review

Fapetu et al (2021) examined capital market performance and macroeconomic dynamics in Nigeria using secondary data spanning form 1993-2020. The result was analyzed using vector error correction, the result revealed a significant long run relationship between capital market performance and macroeconomic dynamics in Nigeria. In other words, the result of the study supports the proposition that the dynamics in the exchange rate inflation, money supply and unemployment rate influence the capital market performance.

Taiwo (2025) explode market development and stock market performance in Nigeria, using antouagressive distributed lag (ARDL) model. The empirical analysis focused on both short –run and long run dynamics as well as speed of adjustment toward equilibrium, the finding of the study show that market capitalization has a significant positive effect on GDP indicating that a well capital stock boosts economic growth.

Elijah,L.K.(2025) anlysised the impact of macroeconomic variable on stock performance in Nigeria (1986_2023)the study used secondary time series data the data collected were analyzed using ARDL model the result shows that money supply, exchange rate, government revenue, government expenditure had positive influence on stock market performance in Nigeria, based on the result the paper recommend that central bank of Nigeria (CBN) through it money policy committee (MPC) should make effort to stabilize the money system by lowering interest rate and also stabilize other things.

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Offia et al (2026) conducted a study on the effect of market risk on fincial performance of firms in Nigeria oil and gas firms from 2019 to 2024. Exchange rate risk, interest rate risk and community price were employed as proxies for market risk while return on asset (ROA) served as the measure of fincial performance. The study utilized sample of seven firms listed in oil and gas section of Nigeria exchange group. The data were anysed using descriptive statistics correlation analysis. The findings revealed that exchange rate risk has a statistically significant effect on the ROA of oil and gas firms in Nigeria, while interest rate was found to have an insignificant influence on ROA, while commodity price change showed no statistically significant influence on ROA with the study period. The study recommend that firms should maintain product debt management practice and optimize their capital structure to minimize exposure to interest rate fluctuation.

Riiruwai et.al. (2026) investigated the effect of macroeconomic stock on share market performance in Nigeria between 2000q1-2024q1 using structural VAR model. The result shows that all share index money supply exchange rate and inflection rate are stationary at first different while interest rate is statutory at all level. The study concludes that macroeconomic stock plays a significant role in shaping to all share index in Nigeria.

Akanbi (2025) anlysised s macroeconomic factors and stock market performance based on new evidence: A case study from Nigeria. The study employed the Autoregressive distrusted lag (ARDL). The result shows that stock performance in Nigeria was influenced positively by GDP growth although it was an insignificant influence

Vincent et al (2025) investigated the effect of various macroeconomic shocks on the stability of Nigeria financial market. The study made use of Autoregression distributive lag (ARDL) for the analysis. The result shows that MS has a positive inconsequential influence on GDP in the long run. The result further show that macroeconomic variables stock has significant impact on economic growth in Nigeria.

Abu&Ibekwe (2023) examined macroeconomic determinant of stock market performance in Nigeria. The study made use of secondary time series data from 1999-2021 from central bank of Nigeria. The data analysis relied on the autoregressive distributed lad (ARDL). The study found out that interest rate and exchange rates did not significantly affect the Nigeria stock market short- and long-term performance. In contract the inflation rate and gross domestic product growth rate significantly and negatively affect the Nigeria stock exchange market performance in short and long term.

Obi and Balogun (2024) explore the impact of financial technologies on the Nigerian stock market, noting that technological innovations improve market efficiency by streamlining trading processes and increasing accessibility. Their research demonstrates that technologies such as algorithmic trading and block chain can facilitate better risk management, reduce transaction costs, and attract a more diverse investor base. These advancements contribute to a more robust and dynamic market environment, supporting both short-term performance and long-term growth.

Mba and Egwu (2023) emphasize the importance of effective regulation in maintaining market stability and fostering investor confidence. Their study highlights those robust regulatory practices—such as enforcing transparency, protecting investor rights, and preventing market manipulation— are crucial for sustaining market performance. Effective regulation helps mitigate systemic risks and enhances market credibility, which is particularly important for emerging markets where regulatory weaknesses can lead to significant market disruptions.

Agunobi et al. (2024) examined the effect of macroeconomic variables on stock market performance in Nigeria from 1990 – 2022. The method of data analysis was Auto-regressive

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distributed lag model (ARDL) technique was used. The findings of the study revealed that the lag broad money supply had significant effect on total market capitalization of the stock market.

Anyanwu and Ohurogu (2024) investigated effects of interest rate and money supply on stock market liquidity in Nigeria covering the periods of 1985 to 2022. Vector Auto regression estimation technique with Variance Decomposition and Impulse Response Function were employed to analyze the data. The study concluded that interest rate had negative effect on stock market liquidity in Nigeria. Shock from interest rate reduced stock market liquidity, also, shock from money supply increased stock market liquidity, although, shock from money supply had more explanatory power on stock market liquidity in Nigeria.

Gbanador (2024) investigated the influence of macroeconomic variables on stock price behavior in Nigeria. The annual time series data spanning through the period of 1995 to 2021. Parsimonious Error Correction model and the Fully Modified Least Square were used for the data analysis. The findings from the short-run result showed that all the macroeconomic variables adopted for the study had no positive and significant influence on stock price except inflation whose impact was positive and significant. However, the result from long-run analysis revealed that interest rate and money supply had inverse and insignificant influence on stock price behavior. Inflation had a positive and insignificant effect while exchange rate had a positive and significant influence on stock price behavior in Nigeria.

Ordue et al (2024) examined the effect of macroeconomic indicators on stock market performance in Nigeria from 1986 to 2022. The analysis included unit root tests, co-integration tests, and Error Correction Model analysis were used. The results indicated a strong positive relationship between stock market performance and lagged values of Gross Domestic Product (GDP) and Inflation Rate (INF) in the long run. Economic growth, as indicated by GDP and inflation rates played significant roles in driving stock market movements in Nigeria. Conversely, there is a negative relationship between stock market performance and lagged values of equity (EQUI) and interest rate (INTR), suggesting that changes in equity and interest rates may not have a long-term influence on stock market performance. The short-run analysis reveals short-term momentum in stock market performance, with past stock market returns and inflation rates positively affecting current stock market performance

Penzin & Salisu (2025) analyzed the relationship between financial stress and exchange rate volatility in Nigeria. The study employed predictive econometric modelling to examine the behavior of the naira against major foreign currencies. The findings indicated that financial stress significantly predicts exchange rate volatility, implying that macroeconomic instability can increase market risk exposure for firms operating in Nigeria.

Onwuliri etal(2024), investigated foreign exchange rate exposure and economic performance in Nigeria. The study employed an ex-post facto design and regression analysis using data covering 2019–2023. The findings showed that exchange rate exposure has a statistically significant relationship with economic performance, highlighting the importance of hedging and risk mitigation strategies in volatile financial environments.

Imoagwu,et al (2024) examined the effect of exchange rate fluctuations on manufacturing sector performance in Nigeria using data covering the period 1996–2022. The study employed econometric analysis to examine the relationship between exchange rate changes and industrial performance. The findings indicated that exchange rate fluctuations significantly affect production costs and competitiveness of manufacturing firms, thereby influencing their financial performance.

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Adekunle, et al (2024) worked on the influence of macroeconomic risk variables on stock market returns in Nigeria using monthly data from 2000 2022. The study adopted the ARDL and GARCH models to analyze market volatility. The findings indicated that interest rate, inflation rate and exchange rate significantly influence stock market returns and volatility, demonstrating the importance of market risk variables in determining financial performance of firms listed on the Nigerian capital market.

Ibosiola & Areghan (2023) investigated the impact of exchange rate management on capital market performance in Nigeria. The study utilized time series data covering the period 2004–2023 and applied the Ordinary Least Squares (OLS) regression technique. The findings revealed that exchange rate movements have a significant effect on market capitalization and inflation, suggesting that exchange rate instability can influence investor confidence and overall market performance.

Fapetu,et al. (2022) analyzed the relationship between macroeconomic variables and capital market performance in Nigeria. Using secondary data spanning 1993–2020, the study employed the Vector Error Correction Model (VECM). The findings revealed a significant long-run relationship between exchange rate, inflation, money supply and capital market performance, confirming that macroeconomic risk factors play a crucial role in determining financial outcomes in the Nigerian market.

Humpe et al. (2025) investigated and did a comparative study on how macroeconomic factors influence stock markets in BRICS (Brazil, Russia, India, China, and South Africa) and Anglosphere (Australia, Canada, New Zealand, the United Kingdom, and the United States). The study relied on quarterly data from 1995 to 2023 and employed the ARDL Model as the estimation technique. This study provided evidence that inflation has a long-term positive and significant impact on the stock market performance in the BRICS countries. The study established a positive and significant relationship between real GDP and stock market performance for the countries in the Anglosphere block. At the same time, inflation exerts a negative and significant effect on stock market performance, i.e. GDP enhances stock market growth while inflation retards stock market growth. Also, the Central Bank Policy rate and money supply do not significantly impact both sets of countries. Thus, this study was able to establish that diverse macroeconomic factors affect stock markets in different sets of countries, demonstrating different risk characteristics in these countries

Vieira & Ferrando (2024) investigated the impact of macroeconomic factors on the Brazilian stock market. The study relied on annual data from secondary sources from 2010 to 2024 and employed the ARDL Model as the estimation technique. The study established a long run cointegration among the variables. Then, the study was able to provide empirical evidence of the existence of a negative and significant impact of inflation and exchange rate on the stock market performance in both the short and long run. GDP has a short-run positive impact, and interest rates negatively influence the stock market in Brazil, although this impact is not statistically significant. The study concluded that for the stock market in Brazil to grow, there is a need for a stable macroeconomic environment

Zambia, & Chola (2024) studied the effect of macroeconomic condition on the equities market. The study adopted a multiple regression technique to examine the relationship. The study provided evidence that exchange rates, inflation rates and interest rates have a strong and positive correlation with stock market can be used to predict the equities market performance in Zambia. The study recommends that authorities in Zambia should try to maintain a stable inflation rate exchange rate interest rate.

Theoretical Framework:

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This study is anchored on established financial and macroeconomic theories that explain the relationship between

This study is anchored on established financial and macroeconomic theories that explain the relationship between macroeconomic risk and financial market performance. Specifically, the framework is built on the Arbitrage Pricing Theory (APT) as the core theory, supported by the Efficient Market Hypothesis (EMH). These theories collectively provide a robust foundation for understanding how macroeconomic dynamics influence financial markets, particularly in emerging economies like Nigeria.

Arbitrage Pricing Theory (APT)

The Arbitrage Pricing Theory (APT), developed by Stephen Ross in 1976, provides a multifactor framework for analyzing asset pricing. Unlike single-factor models, APT posits that the expected return on financial assets is a linear function of various macroeconomic risk factors. These factors capture systematic risks that cannot be diversified away and thus significantly influence market performance.

$$Ri=\beta0+\beta1F1+\beta2F2+\cdots+\beta nFn+\epsilon i$$

Where:

- RiR_iRi = expected return on asset or market index
- FnF_nFn = macroeconomic risk factors
- βn\beta_nβn = sensitivity coefficients (factor loadings)
- ϵi\epsilon_iϵi = idiosyncratic error term

In the context of Nigeria's financial market, macroeconomic risks such as inflation volatility, exchange rate instability, interest rate fluctuations, and oil price shocks are critical determinants of stock market performance, typically proxied by the All-Share Index (ASI). APT is particularly suitable for this study because it accommodates multiple risk factors, making it ideal for analyzing complex macroeconomic environments in developing economies.

Furthermore, APT supports empirical modeling using econometric techniques such as multiple regression, vector autoregression (VAR), and cointegration analysis, which are commonly employed in financial market studies

Efficient Market Hypothesis (EMH)

The **Efficient Market Hypothesis (EMH)**, advanced by Eugene Fama in 1970, asserts that financial markets are informationally efficient. This implies that asset prices fully and instantaneously reflect all available information, including macroeconomic indicators.

EMH is categorized into three forms:

- **Weak-form efficiency:** prices reflect past market data
- **Semi-strong form efficiency:** prices reflect all publicly available information
- **Strong-form efficiency:** prices reflect all information, both public and private

Within the framework of this study, the semi-strong form is most relevant, as macroeconomic variables such as inflation rates, interest rates, and exchange rates are publicly available and are expected to be incorporated into stock prices without delay.

The implication of EMH is that changes in macroeconomic conditions will be rapidly transmitted to financial markets, influencing stock prices and returns. However, in emerging markets like

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Nigeria, informational inefficiencies, market imperfections, and regulatory constraints may slow down this adjustment process. This makes EMH a useful complementary theory for assessing the speed and extent of market response to macroeconomic risks.

METHODOLOGY

This study adopted expost facto research design. The design was considered appropriate because it enable us to use already existing data to examine how variation in the explanatory variable influence the financial market performance. The study covered a period of 15years from 2010 to 2014. The study relied exclusively on secondary data obtained from a credible source including Central Bank of Nigeria (CBN) statistical bulletin the national bureau of statistics (NBS). The data that were gathered were analyzed using the descriptive statistics (mean score and standard deviation) Pearson correlation coefficient and multiple regression analysis with the aid of Stata 12 software.

Model specification:

The model used for the study is stated in functional form below

$GDPR_t = \beta_o + \beta_1 ERR_t + \beta_2 IRR_t + \varepsilon_t \ldots (1)$

$MSC_t = \beta_o + \beta_1 ERR_t + \beta_2 IRR_t + \varepsilon_t \ldots (2)$

Where ASI- All share index

IRR - inflation rate risk

ERR -Exchange rate risk

MSC- market share capital.

GDPR – gross domestic product rate

E= error term

I= cross sectional

T=time period

αo=constant in the model

DATA PRESENTATION AND ANALYSIS

Table 4.1: Bivariate correlation of the variables

	err	Irr	gdpr	empr
ERR	1.0000			
IRR	0.8736*	1.0000		
GDPR	0.8932*	0.9331*	1.0000	
MSC	0.5112*	0.5144*	0.5009*	1.0000

Source: Output from STATA version 12.

* Correlation is significant at the 0.5 level

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Table 4.1 above showed that exchange rate risk and inflation rate risk are positive and significantly correlated with gross domestic product growth (0.8932* and 0.9331*).

Also, the correlation matrix revealed that market share capital has a positive and moderately significant correlation with exchange rate risk and inflation rate risk (0.5112* and 0.5144*).

Analysis of Multi-Collinearity

Before conducting regression analysis, multi-collinearity needs to be patterned. Multicollinearity is a statistical concept where several independent variables in a model are correlated. Two variables are considered to be perfectly collinear if their correlation coefficient is +/- 1.0. Multicollinearity among independent variables will result in less reliable statistical inferences. This study employed the Variance Inflation Factor (VIF) method in order to determine the presence of multi-collinearity among independent variables. VIF value greater than 10 calls for concern while the normality is the assumption that the underlying residuals are normally distributed, or approximately so. The null hypothesis states that the residuals are normally distributed, against, the alternative hypothesis that they are not normally-distributed.

Table 4.2: Test of Multi-Collinearity

Variable	VIF	1/VIF
ERR	10.42	0.095969
IRR	9.33	0.107181
Mean VIF	9.08	

Source: Output from STATA version 12

The test of multicollinearity among the independent variables in Table 4.2 above revealed a variance inflation factor value of 9.08 which is below 10. Therefore, independent variables used in this study do not suggest multicollinearity problem.

Regression Result

Table 4.3: Multiple regression results with GDPR as dependent variable

$GDPR_t = \beta_o + \beta_1 ERR_t + \beta_2 IRR_t + \varepsilon_t \ldots (1)$

Linear regression

number of obs =			15
F(3, 17)	=		582.21
Prob > F	=		0.0000
R-squared	=		0.9761
Root MSE	=		5312

GDPR	Coef.	Robust Std. Err.	t	p>/t/	(95% Conf.	Interval)
IRR	35.12419	8.8287	3.98	0.001	16.49726	53.75112
ERR	69.48867	11.06868	6.28	0.000	46.13581	92.84154

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_CONS	1812.13	1848.998	0.98	0.341	-2088.915	5713.176

Source: Output from STATA version 12.

Table 4.3 above shows the regression model of gross domestic product growth (gdpr) against interest rate risk (IRR) and exchange rate risk (ERR). The standard robust error in the regression addresses heteroskedasticity. The F statistics in Table 4.3 shows that at F (3, 17) = 582.21, Prob>F = 0.0000 and that the independent variables statistically and significantly predict the dependent variable. The independent variables in the model explain 97.6% of the variation in gross domestic product growth.

Table 4.5: Multiple regression results with EMPR as dependent variable

$MSC_t = \beta_o + \beta_1 ERR_t + \beta_2 IRR_t + \varepsilon_t \ldots (2)$

Linear regression

number of obs =	15
F(3, 17) =	18.32
Prob > F =	0.0000
R-squared =	0.8645
Root MSE =	2.3059

MSC	Coef.	Robust Std. Err.	t	p>/t/	(95% Conf.	Interval)
IRR	-.021412	.0060562	-3.54	0.003	-.0341894	-.0086346
ERR	.042602	.0086922	4.90	0.000	.0242629	.060941
_CONS	2.401198	.7225964	3.32	0.004	.8766526	3.925743

Source: Output from STATA version 12.

Table 4.4 above shows the regression model of market share capital (MSC) against interest rate risk (IRR) and exchange rate risk (ERR). The standard robust error in the regression addresses heteroskedasticity. The F statistics in Table 4.4 shows that at F (3, 17) = 18.32, Prob>F= 0.0000 and that the independent variables statistically and significantly, predict the dependent variable. The independent variables in the model explain 86.45% of the variation in market share capital.

CONCLUSION

Achieving the macroeconomic objectives of rapid and sustainable growth, price stability and full employment through fiscal sustainability has continued to dominate policy goals in Nigeria. There is a need to establish an adequate and efficient macroeconomics risk control mechanism for improved financial market performance and a sustainable economic growth. Thus, this study deepens the understanding of the influence of macroeconomics risk on financial market performance with a focus on GDP growth, and market share capital in the country. This affirms the stabilization role of macroeconomics risk in boosting financial sustainability and creating a roadmap for sustainable growth and job creation.

Oyebanji and Oyebanji (2017) equally underscores the rationale for taxation to include raising money through public revenue generation and other legitimate functions of the government from taxes on incomes, goods, services, and properties of an individual and corporate body. The findings of this study also affirmed the relevance of macroeconomics risk as exchange rate volatility and

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interest rate risk have on gross domestic product growth and market share capital. The study therefore concluded that there is a significant relationship between macroeconomics risk and financial market performance in Nigeria.

Recommendations

The policy recommendations proffered for this study are as follows:

1. Government and its agencies should work to ensure reduction in exchange rate to enhance increase in gross domestic product (GDP), growth and improve market share capital in the country's financial market.
2. Government should make efforts to reduce interest rates and even give grant to newly established companies as this will improve Gross Domestic Product (GDP) growth and market share capital.
3. Government should ensure reduction in tax rate so as to increase Gross Domestic Product (GDP) growth and improved market values of shares.

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