

## IIIMPACT OF INFLATIONARY TRENDS ON STOCK MARKET PERFORMANCE IN NIGERIA

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### Abstract

*Since stock market performance indicators in Nigeria have shown remarkable volatility over the years, this study aims to investigate the relationship between inflation and stock market performance in the country over from 1981 to 2021. In order to determine the nature of the relationship between inflation and indicators of stock market performance in Nigeria, we obtained variables on stock market capitalization, stock market all share index, turnover ratio, and total values of shares traded from the financial report of the central bank of Nigeria and regressed them using the augmented dickey and fuller test for stationarity, the johansen test, and the ordinary least squares estimation method. In addition, the empirical results showed that stock market capitalisation was positively significant and related with inflation negatively across the study period. Since inflation has a direct negative impact on the standing of stock market all share index in the country during the period of this investigation, the study concluded that the government should formulate and implement economically friendly policies that would facilitate and improve the performance of the stock market during that time.*

**Keywords:** All Share Index, Stock Market Capitalization, Turnover Ratio, Total Values of Share Traded, Inflation Rate.

### Introduction

In recent years, there has been continuous and sustained increase in the prices of goods and services in the market thereby making life very difficult with fixed income earners and the ordinary man can no longer afford the basic necessities of life. Manufacturers complain of increasing of raw materials, rising wage bills, and high cost of imported machines. Importers complain of increasing exchange rates, Transporters are faced with increasing cost of petrol and spare parts, etc all these adds to the cost of production which is passed down to the consumers as increase prices of goods and services. This scenario is a clear case of inflation which can be defined as an increase in the overall cost of goods and services in the economy. Inflation is defined as an increase in the general average level of prices rather than an increase in any particular product. The consumer price index (CPI), which tracks changes in the average prices of consumer goods and services, is the most generally reported indicator of inflation. According to Sloman and Kevin (2007), inflation can be either demand pull or cost push. Demand pull inflation is induced by sustained increases in

aggregate demand, which causes enterprises to respond by raising prices and, in certain cases, increasing output. Cost push inflation is characterized by a consistent increase in business costs. Firms respond by raising prices, passing on the costs to the consumer, and reducing production in part. According to Hendry (2016), inflation is the result of multiple surplus wants and supplies in the economy. Inflation gradually diminishes the purchasing power of money, resulting in a loss of money's real value. As inflation rises over time, the value of money falls and returns fall as well (Ahmad and Naseem, 2018). Higher inflation uncertainty raises the needed risk premium, which raises the discount rate and lowers the discounted present value of expected future cash flows, causing stock prices to fall. Furthermore, inflation concern has a detrimental impact on economic activity, and because stock returns lead economic activity, there is a negative relationship between stock returns and inflation uncertainty (Azar, 2014). Inflationary pressures reduce the purchasing power of an economy's currency (Mugambi and Okech, 2016). Low and steady inflation rates, on the other hand, help the private sector to plan

for the future, reducing the need for costly price adjustments, preventing tax distortion, and creating a stable economic environment (Alimi, 2014).

Although, Stock market return is the yield an investor obtains over a specified period. It is sometimes considered synonymous to stock prices. A strong market can be seen as one that incorporates new information on stock prices and hence making the stock prices for the firms stable and accurately valued (Mwangi and Mwiti, 2015). Stock market returns have predictive power for investment and output because stock market returns are a forward-looking variable that incorporates expectations about future cash flows and discount rates. Stock market returns serve as an index to investors or governments in making their investment decisions. Investors of different financial capacity are able to invest in the stock market as long as they are able to get a return that is higher than their cost of capital (Wang, 2012).

However, the relationship between inflation and stock returns, on the other hand, has garnered considerable attention in the extant literature. As such, the relationship between stock prices and inflation is based on Fisher (1930), who asserts that equity stocks, which reflect claims on a company's real assets, can be used as a hedge against inflation. When predicted inflation is high, investors will sell financial assets to buy real assets (Ioannides, Katrakilidis, and Andreas, 2005). Furthermore, according to the efficient market hypothesis (EMH), stock markets gradually integrate into the global market, and prices respond to global information such as inflation and other macroeconomic indicators. According to Mahedi (2013), based on market efficiency, inflation effects stock indices, where higher-than-expected inflation, which is economically bad news, implies a major impact on stock returns.

Furthermore, the understanding of stock market performance and inflation is imperative for investors because stocks are expected to provide protection from the effects of inflation (Mbulawa, 2015). However, a number of researches conducted to examine the effect of inflation on stock returns in both developed and developing economies around the world have provide mixed findings on the connection between inflation and stock market returns. For

instance, Fama and Schwert (2017) found a negative relationship between the performance of the stock market and inflation. Some significant studies from Pearce and Roley (2015) and Hardouvelis (2018). It is on the basis of this mixed result, the study seeks to examine the influence of inflationary trends on stock market performance in Nigeria.

### **Study Aims and Objectives**

The underling aim of this study is to examine the influence of inflationary trend on stock market performance in Nigeria. The specific objectives of the study are established to:

- Analyze the influence of Inflationary Trend on Stock Market Capitalization in Nigeria
- Determine the impact of inflation on the All share Index in the Nigerian Capital Market.
- Determine the influence of inflation on Turnover Ratio of the Nigerian Stock Market
- To determine the impact of inflation on the Total Value of Shares traded on the Nigerian capital market

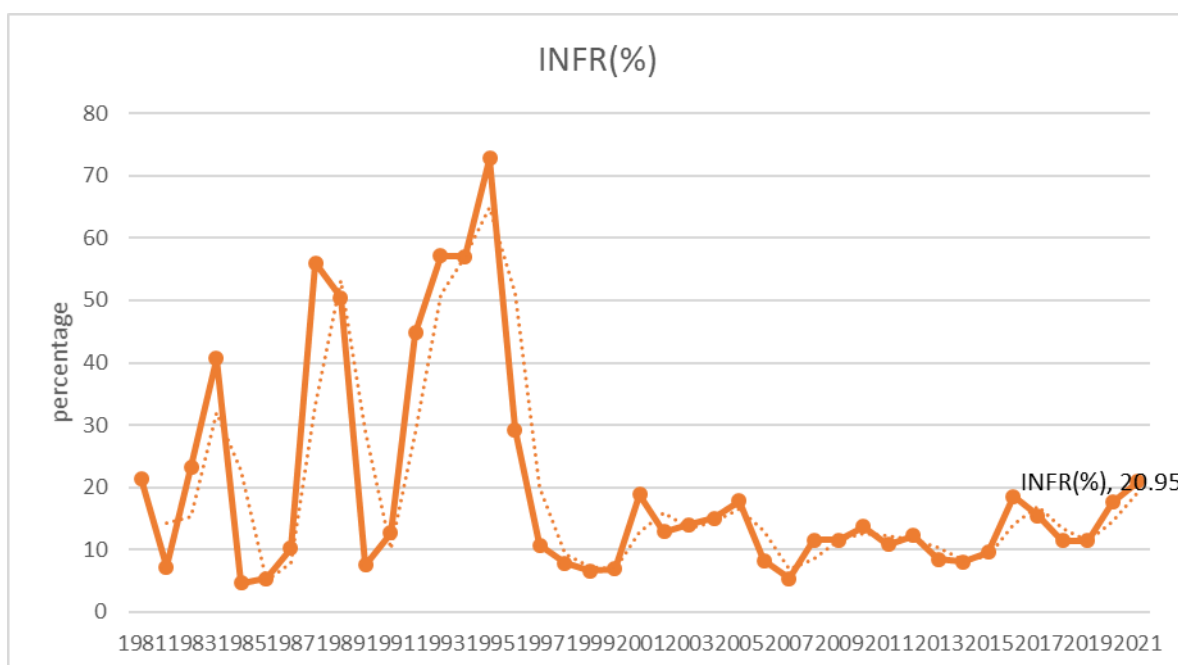
### **Literature Review**

#### **Inflationary Trend in Nigeria**

In Nigeria, there have been serious concerns about rising cost of living and increasing inflation rates, according to the national bureau of statistics NBS (2022), in 2016 inflation rate stood at 16%, 18% in 2017, 19% in 2020 and in 2022 it rose to about 21%. Monetary policy attempts at bringing down inflation to single digits have proved abortive. However in spite of the numerous disadvantages of inflation, an advantageous effect of inflation to stocks is commonly believed. The reason is that the returns to shareholders are increased due to inflation since product prices increase faster than interest (Udoka, 2013). Hardin, Jiang and Wu (2012) stated that if investors are unsuccessful in adjusting nominal growth rates with nominal discount rates, stock prices will be undervalued (overvalued) when inflation is comparatively high (low). The relation of inflation to stock price is still unclear which makes studying the performance of these two variables vital for researchers (Saleem, 2013). Inflation has been a concern of every ups and down of the economy. Granville (2013), had studies of the good effect of inflation on growth

in the short-run. A study showed that increasing money supply raised the output level of the firms in a short period of time creating demand shocks. An unforeseen inflation provided an increase in the growth rate while a decrease in inflation rate resulted in a declined growth rate. However, this view is applicable only in the short-run and does not consider its long-run effects. Modern economists believe that inflation rate negatively affects economic growth. It is because inflation brings out uncertainty as the study discussed due to lack of approximation techniques and less understanding of its variability. Thus, regulating inflation is a precondition for maximizing economic growth.

Kumari (2011) stated that today, because of the increasing growth and liberalization, the center of studies has been moved toward developing countries. There are two main channels in which inflation appears to affect stock prices. The first channel is the impact of inflation on the potential earnings of the firms. The other one is the way investors regulate their discount rate for future cash flows. A less stability was found in the prices of stocks and a higher investment uncertainty if there is an indication of inflation. The perception of this study is a negative relationship between inflation and stock prices since the latter are the reflection of future activity of the economy (Bhar, 2010).



**Fig 1: Inflationary Trend in Nigeria**

Source: Authors Compilation 2023

The inflation situation in Nigeria is suggestive of a lack of control over core macroeconomic indicators, as evidenced by the distorted movement of the inflation graph during the last decade. Following the breakdown of monetary checkmating mechanisms, the inflationary trajectory in the country has been on a free rise and free fall approach, with average inflation of 8.48% in 2013, 2014, and 2015. Inflation in Nigeria reached an all-time high of 18.5

percent in 2016, before dropping to 15.4 percent the following year. Inflation fell sharply between 2018 and 2019, by an average of 11.4% annually, after having risen by as much as 17.59% in 2020 (the year of the global health crisis) and 20.95 in 2021. After the collapse of monetary policy, this situation has remained precarious (Alamba and Ejelonu, 2022).

### Stock Price Growth

For years, a sustained growth in Gross Domestic Product signifies a strong and efficient nation. Later, a good stock market has been recognized as important for economic growth through investors and entrepreneurs being offered with interest. It is said that throughout the years, many researchers have been studying the relation of inflation to stock prices with equivalent effect to its returns (Kumari, 2011). Saleem et al. (2013) mentioned that a decline in nominal interest rates is caused by a decline in the expectations the consumers have in future inflation.

It provides higher profits even though prices are high since they are limited resources and a need for every country. Due to some other factors, the inflation may or may not affect the stock market return negatively or positively. Thus, studying inflation and stock prices is important to know how greatly or badly it plays its role in the economy (Saleem). Hardin, (2012) stated in their studies that investors are also interested in the relationship between inflation and stock prices.

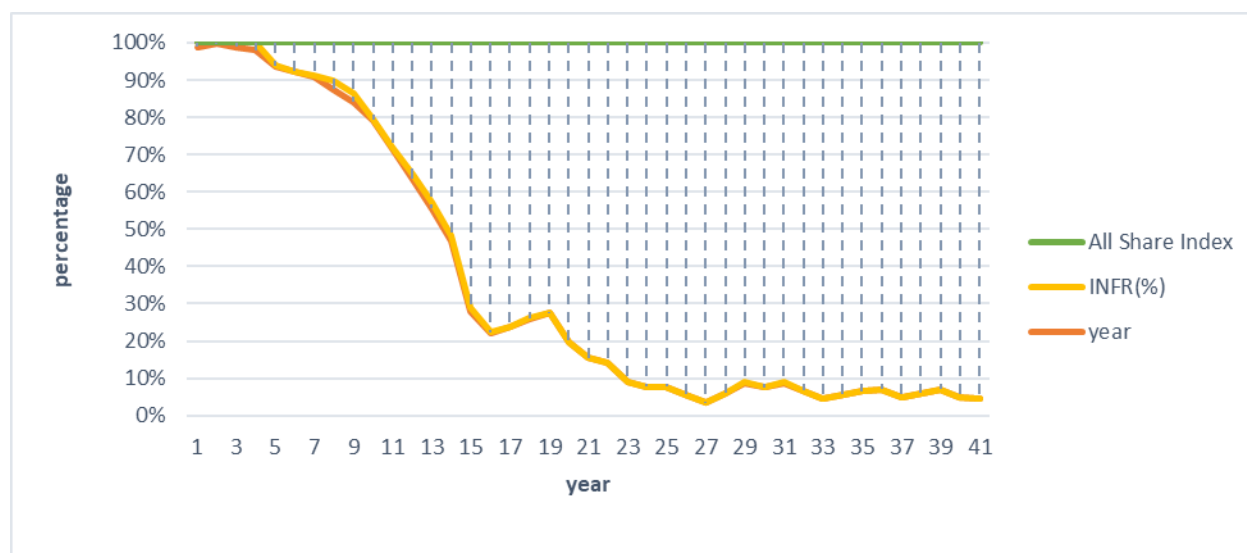


Fig 2: All Share Index and Inflationary Trend in Nigeria

Source: Authors Compilation 2023

A cursory look at the statistical relationship between inflationary trend in Nigeria and all share index for the same period, clearly shows that inflation exhibited a rather negative effect over the performance of stock market all share index for the period as illustratively demonstrated through the downward trend depicting the ugly relationship between inflation and the performance of stock market in Nigeria. One hypothesis with regards to the negative relationship between inflation and stock price is about the damage brought by unexpected inflation to real economy which caused the stock price to fall when inflation

rate fluctuates. Another hypothesis asserts that investors are becoming conscious in taking a risk when inflation rises. Investors want a higher stock returns and higher real discount rates. Thus, there is an understatement in stock prices when there is high inflation and overstatement when inflation is low. In addition, a negative relationship between inflation rate and the stock price was discovered from a test conducted in Pakistan (Saleem, 2013).

### Inflation and Performance of Stock Market

The value and purchasing power of currency diminishes over time due to inflation. Inflation is a state in the economy of a country, when there is a persistent rise in aggregate level of price of goods as well as services. Repetitive price increase erodes the purchasing power of money and other financial assets with fixed values creating serious economic distortions and uncertainty. With increase in inflation, every sector of the economy is affected. Ranging from unemployment, interest rates, exchange rates, investment, stock markets. There is an aftermath of inflation in every sector. Inflation is bound to impact all sectors, either directly or indirectly. Inflation and stock market have a very close association. If there is inflation, stock markets are the worst affected (Jepkemei, 2017). Inflation within the entire domestic there by siphoning off excess liquidity from the system. Theoretically, when there is less liquidity, there is less speculative demand for goods in the economy, hence slowing down the increase in general prices (Ong 2014).

An increase in the rate of inflation has an effect, including the level of

economy is estimated using GDP deflator while consumer prices are measured by the CPI.

Price stability is essential in determining whether an economy is stable or not. Inflation which is the constant increase in price creates uncertainty in the economy; Well inflation is known to wipe out the savings and investments of people. If Inflation goes out of control and increases too much, people will have to spend too much on the essential stuff, which means they will stop buying things which are not essential. This will make the economy stagnant as demand for various goods will drop (Ibrahim and Agbaje 2013, Choudhary 2015).

When there is threat of escalating inflation, the central bank tries to control this by raising interest rates. By increasing interest rate, they hope to attract investors to park their cash in fixed income instruments, unemployment, exchange rates, interest rates and the performance of stock markets in every economy. For this reason, central banks that aim to reduce inflation, being cautious of deflation, ensure the efficient running of monetary activities in the economy.

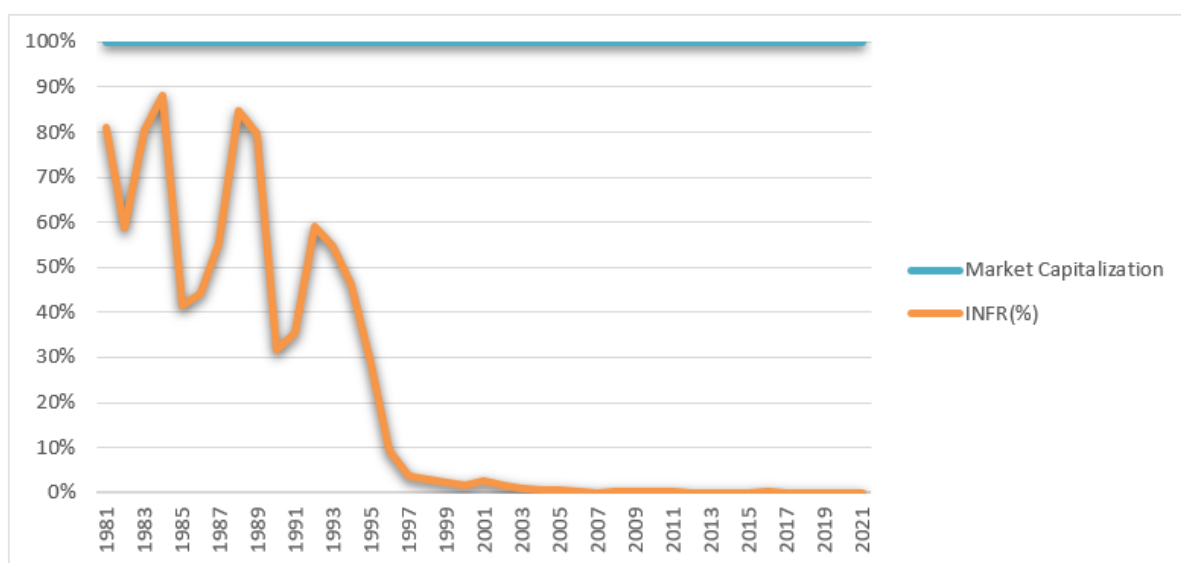


Fig 2: All Share Index and Inflationary Trend in Nigeria

Source: Authors Compilation 2023

In the wake of both (inflation and interest rates) being high, the creditor will have a tendency to compensate for the rise in interest rates. Therefore, the debtor has to avail of a loan at a higher rate. This plays a significant role in prohibiting funds from being invested in stock markets (Economy watch 2010). Rising inflation can cause the most damage in fixed income securities, because most likely going to lose the real terms if the agreed interest rate is less than the inflation per cent; it also encourages investors to lock in their cash from equities to more attractive, less risky securities, like money market funds. The stocks are one of the few assets that can rely on when it comes to beating inflation; the other asset that can consider is real estate which tracks inflation through value appreciation. However, this is not as liquid as stocks.

The lower the funds flow into the market, the lower the demand for stocks, hence lower share prices, the price of stocks are directly proportional to the performance of the company. In the event when inflation increases, the company earnings (worth) will also subside. This will adversely affect the stock prices and eventually the returns. If inflation continues to increase, the minimum return on stock investment will also be higher which will push market valuation lower. Share prices will fall until the estimated earnings yield increase to a point enough to offset the expected inflation (Ong, 2014).

### **Theoretical Framework**

The study is anchored on inflation illusion hypothesis of Modigliani and Cohn (1970), which points out, that the real effect of inflation is caused by money illusion (Omotor, 2011). The inflation illusion suggests that when expected inflation rises, bond yields duly increase, but because equity investors incorrectly discount real cash flows using nominal rates, the increase in nominal yields leads to equity underpricing and vice versa (Owolabi and

Adegbite, 2013). Accordingly, the Modigliani-Cohn (1970) hypothesis suggests that disinflation may itself generate mispricing by confusing stock market investors who are subject to inflation illusion. It also implies that a successful stabilization of inflation will reduce the volatility of mispricing and thereby contribute to the efficiency of the stock market (Campbell and Vuolteenaho, 2004).

The inflation illusion hypothesis also claims that stock market investors suffer from money illusion is a particularly intriguing and controversial proposition, as the stakes in the stock market are obviously very high. Thus, when inflation is high (low), the rational equity-premium expectation is higher (lower) than the market's subjective expectation, and the stock market is undervalued (overvalued) (Cohen et al., 2005). Under the inflation hypothesis, an overly strong (weak) nominal discounting of future real cash flows in times of higher (lower) inflation expectations depresses (raises) current stock and prices and thus leads to an undervaluation (overvaluation) of equity markets (Schmeling and Schrimpf, 2008). The Inflation illusion theory generally makes identical predictions about the forecasting power of inflation for asset returns in the stock market.

The inflation illusion theory is psychological in nature one maybe tempted to overvalue the stock market in the face of rising inflation without taking into account the effect of inflation in the value stock. In view of such fact and assuming that inflation is persistently positive, the capital market may thus be over valued.

### **Empirical Review**

Several empirical studies have attempted to associate changes in the performance of stock market indicators with changes on the inflationary trend in the country. Inflationary trend has been seen as the

predator to the performance of stock market in the globe. Reddy (2012) explored the impact of real gross domestic product, interest rate and inflation rate on stock prices of quoted companies from 1997 – 2009. Using regression analysis the study established that real gross domestic product, interest rate and inflation rate accounted for 95.6% of the variation in stock prices. The study also revealed that a reduction in interest and inflation rate resulted in increased stock prices, increased real gross domestic product had a positive impact. The study recommended that the government should therefore implement policies that will reduce inflation rate and improve the standard of living of its citizens and interest rate should be made moderate to encourage investment and transactions in stock.

Kuwornu (2012) explored the effect of macroeconomic variables on the Ghanaian stock market returns using monthly data over the period January 1992 to December 2008. The study employed the Johansen Multivariate Co-integration Procedure. The empirical results reveal that there is co-integration between the inflation, crude oil price, exchange rate and 91-day Treasury bill rate and stock returns in Ghana indicating long run equilibrium relationship. Further, the results revealed that; in the short run, Treasury Bill Rate and inflation rate significantly influences the stock returns. In addition, the study found out that in the end the stock returns are significantly influenced by inflation rate, crude oil prices, exchange rate, and the Treasury bill rate. Floros (2004) examined the relationship between stock returns and inflation in Greece, The study focused on various econometric techniques to test the relationship, using monthly values of the Athens Stock Exchange Price index and the Greek Consumer Price index over the period 1988-2002. The results from a simple OLS model revealed a positive, but not significant relationship, however, using a system of equations including lagged

values of inflation the study found a negative but not significant effect of lagged inflation to stock returns. In addition, using the Johansen co-integration test, the study found that there is no long-run relationship between stock returns and inflation in Greece and that the inflation rate is not correlated with stock returns.

Mugambi and Okech (2016) explored the impact of macroeconomic variables on stock returns of listed banks in the Nairobi Securities Exchange. The study employed secondary from the Central Bank of Kenya for a period from 2000 to 2015. The study used correlation analysis, Unit Root test and the linear regression model to establish the relationship. The study findings revealed that interest rate, exchange rate and inflation have significant impact on bank stock return, while GDP had an insignificant impact on bank stock returns. The study recommended that the government should ensure a stable macroeconomic environment and moderate its monetary policy interventions.

Kirui, Wawire and Onono (2014) evaluated the relationship between gross domestic product, Treasury bill rate, exchange rate, inflation and stock market return in the Nairobi Securities Exchange. The study used the Engle-Granger two-step method was used to establish the Co integrating relationship between stock returns and the macroeconomic variables and Threshold Generalized Autoregressive Conditional Heteroscedasticity model to capture the leverage effects and volatility persistence at the NSE. The study findings revealed that gross domestic product, inflation and the Treasury bill rate had insignificant relationships while exchange rate showed a significant relationship with stock returns.

Indicators of Market Performance; The following market indicators were selected in order to evaluate the performance of the capital market in relation to inflationary trends in Nigeria for the period under study.

- (1) **Market Capitalization (MCAP)**  
This refers to the total value of a company's outstanding shares of stock, which include publicly traded shares plus restricted shares held by company officers and insiders in a particular listed company. It is a measure of the size of a company or the size of the capital market.
- (2) **Total Value of Shares Traded (TVS)**  
The total value of shares Traded is the total number of shares traded both domestic and foreign, multiplied by their respective market prices. It is also an indicator of the performance of the stock market
- (3) **All Shares Index (ASI):** These are series of numbers showing the changing average value of the share prices of all companies on the stock market. This is used as a measure of how well the stock market is performing.
- (4) **Turnover Ratio (TOR):** The Turnover Ratio is a measure of efficiency. It indicates the length of time it takes for a stock market clear the available stocks in the market. This is one of the measures used in determining the efficiency of the capital market.

### Research Methodology

An ex-post-facto research design will be adopted for this study. The ex-post-facto (or casual comparative) research design attempts to explore causes that affect relationship where causes already exist and looks backwards to explain why. Ex-post

facto research design involves ascertaining the impact of past factor(s) on the present happenings or event. The ex-post-facto research design is a quasi-experimental study examining how independent variables, present prior to the study, affect dependent variables. The ex-post facto research design is considered most appropriate for this study because it is not possible to directly manipulate or control any of the independent variables. This is because the events have already taken place and therefore the research is been conducted after-the-fact. The data needed for this study was collected from the Securities and Exchange Commission SEC. method used in the analysis of data is the multiple regression analysis.

### Model Specification

The first equation of our model introduces the explicative factors of Inflation Rate.

$$INF_t = \beta_0 + \beta_1 MCAP_t + \beta_2 TVS_t + \beta_3 ASI_t + \beta_4 TOR_t + u_t \quad (1)$$

Where

- $t=1, \dots, T$  stands for time,
- $INF$  = Inflation Rate
- $MCAP$  = Market Capitalization Ratio
- $TVS$  = Total Value of Shares Traded Ratio
- $ASI$  = Percentage Change in All Share Index
- $TOR$  = Turnover Ratio
- $\beta_0$  = Intercept.
- $\beta_1, \beta_2, \beta_3, \beta_4$  = Parameters.
- $u_t$  = Error disturbance term.



**A – Priori Expectations of Variables**

$\beta_1$  MCAP > 0 (Negative)  $\beta_2$  TVS < 0 (Negative)+  $\beta_3$  ASI < 0 (Negative) +  $\beta_4$  TOR < 0(Negative)

**Summary of Augmented Dickey Fuller Test**

Variables	ADF STAT	CRITICAL VALUES @5%	PROB*	ORDER OF INTEGRATION	
INFL	-4.016406	1% level	-4.226815	0.0167	1(0)
		5% level	-3.536601		
		10% level	-3.200320		
TVS	-3.733427	1% level	-4.219126	0.0320	1(0)
		5% level	-3.533083		
		10% level	-3.198312		
ASI	-6.318186	1% level	-3.626784	0.0000	1(1)
		5% level	-2.945842		
		10% level	-2.611531		
TOR	-3.727376	1% level	-3.621023	0.0076	1(1)
		5% level	-2.943427		
		10% level	-2.610263		
MCAP	-5.624882	1% level	-4.252879	0.0003	1(1)
		5% level	-3.548490		
		10% level	-3.207094		

Stationarity of the variables is of great concern to the researcher, hence the need to carry out augmented dickey and fuller test for stationarity on the variables, whose outcome provides that, the statistical properties of inflationary level(INFL) and total value of shares traded (TVS) were stationary at levels, given their respective

probability values of 0.0167 % and 0.03%. while the statistical properties for all share index (ASI), turnover ratio (TOR) and market capitalization for period were stationary at first difference, as their individual probabilities and trace statistics values were less than 0.05%.

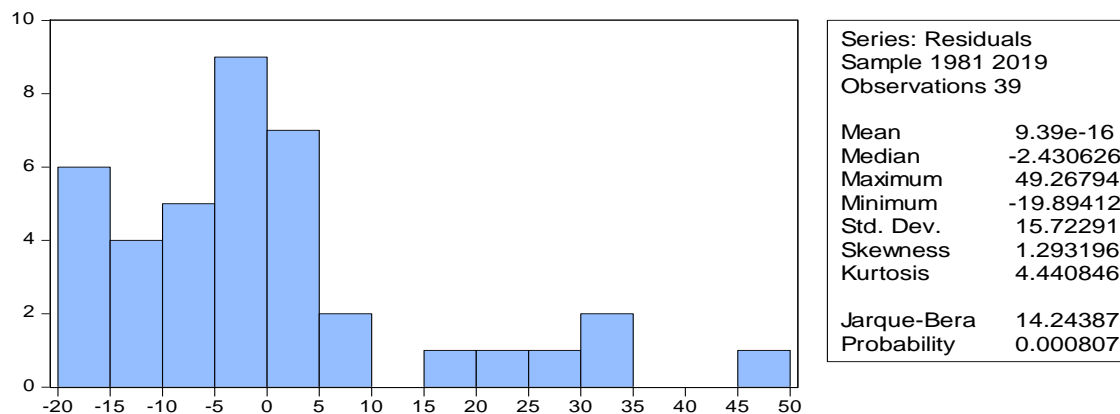
**Long Run Relationship (Cointegration Criterion)**

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.697460	80.33681	47.85613	0.0000
At most 1 *	0.466001	36.10178	29.79707	0.0082

Test for long run relationship shows that the series in the model for the period of this investigation has an inherent long run association ship, judging from the

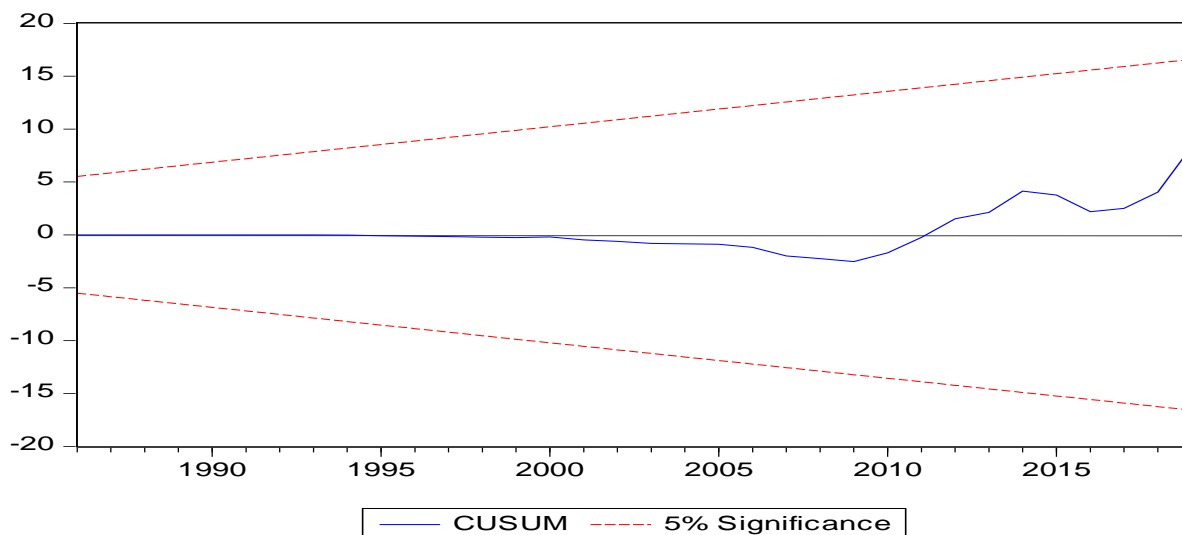
probability values of 0.0% and 0.008% being less than 0.05% for the same period.

**Test of Normality**



The result of normality test proves that the jarque- bera statistic is 14.24% and a probability value of 0.0008 implying that the error term is normally distributed having a positive value far greater than zore.

**Model Stability**



The outcome of recursive cusum test above indicates that the model is stable, given the

trend line remaining within the boundary line for the period (1981-2021) of this study.

Ordinary Least Square.

Dependent Variable: INF				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.80370	3.964026	6.509468	0.0000
ASI(-1)	-0.000462	0.000402	-1.148621	0.2590
MCAP(-1)	0.000423	0.001107	0.382115	0.7048
TOR(-1)	-0.000926	0.002819	-0.328549	0.7446
TVS	-1.74E-06	1.07E-05	-0.163211	0.8713
ECM(-1)	-0.020821	0.005848	-3.560681	0.0016

R-squared 0.160326 Adjusted R-squared 0.058547 F-statistic 1.575237 Prob(F-statistic) 0.203973

Error Correction Estimate(ECM): Error correction coefficient in the model reflected a negative and significant sign, which proves that, it take’s 20.81% for any long run relationship to be corrected back to short annually. Coefficient of Determination (R2): The coefficient of determination (R2) measures the proportion of the variation in IND which is explained by ASI, MCAP, TOR and TVS. The coefficient of determination measures the goodness of fit of the estimated model. The result of the estimations reveals that R2 is 160326. This implies that approximately 16.03% of the total variations in the dependent variable INF is explained by the independent variables ASI, MCAP, TOR and TVS This implies that the model is a good measure of fit. F-statistics: The values of F-statistics is 1.575237 with the probability values of 0.203973%, meaning that the variables in the model are not jointly statistically significant (Ejelonu and Okafor, 2022).

Inflationary trend was used as the predator in the model for the study period, with its empirical indications on stock market all share index depicting a negative insignificant relationship for the period. This implies that inflationary trend,

especially rising inflation exerted a negative effect on stock market all share index in Nigeria for the study duration, which statistically translates that, increasing the coefficient of inflation in Nigeria during this situation by one percent would transform the performance of stock market all share index in Nigeria into a downward decline of 46.2%. This outcome therefore justifies the harsh economic impact rising inflationary trend has on stock market all share index in the country for the study scope, which further buttresses the economic assertions of Floros (2004) who examined the relationship between stock returns and inflation in Greece, The study focused on various econometric techniques to test the relationship, using monthly values of the Athens Stock Exchange Price index and the Greek Consumer Price index over the period 1988-2002. He found in consonance that, there is no long-run relationship between stock returns and inflation in Greece and that the inflation rate is not correlated with stock returns.

Furthermore, stock market capitalization rate for the study period indicated a positive influence over inflationary trend, implying that negative changes on inflation does not significantly deter the performance of stock

market capitalization tendencies in the country for the study period. However, in the face of ascending inflationary trend in the country, stock market capitalization tendencies is expected to having an additive impact over this period. Although this result is not economically justified on the basis of apriori expectations but still very visible economically. This empirical findings, corresponds with the findings obtained by Reddy (2012) who explored the impact of real gross domestic product, interest rate and inflation rate on stock prices of quoted companies from 1997 – 2009 and revealed that a reduction in interest and inflation rate resulted in increased stock prices, increased real gross domestic product had a positive impact.

Also, a hike in inflation shows a negative influence over total market turnover for the study duration, implying that increasing market turnover will adequately be met with the negative influence of inflationary trend in Nigeria. On the statistical notice, increasing the values of inflation by one percent would translate to a 92.6% decline in market turnover rate. We can also see that inflation has a negative influence over the total value of stock traded in the Nigeria stock exchange rate for the study period. These indices provide us a negative nexus between inflationary rise and stock market performance. When inflation rises, stock market indicator of total value of stock traded is expected to proportionately compensate the rise with an equal decline for the study duration.

### **Conclusion**

Empirical research into the relationship between inflation and stock market performance in Nigeria has been extensive. Indicators of stock market performance were used as dependent variables in the regression line, while inflation rate was added to the model as an independent variable to measure the extent to which inflation affects stock market performance.

The statistics characteristics were taken from the Nigerian Central Bank's annual financial report. The variables were regressed using econometric methods, and the results showed that stock market capitalisation was significantly positively associated to inflation across the study period and that the all-share index was adversely related to inflation. Since inflation is known to have a direct negative effect on the standing of stock market all share index in the country during the time period of this investigation, the study further recommended that; government formulate and implement economic friendly policies that would facilitate and improve the performance of stock market all share index.

### **Recommendations**

A major limitation to this work was the lack of or unavailability of real time data. However, given the adoption of modern technology and the digitization of the stock market, this problem will be a thing of the past. The study also gives room for further investigations into emerging factors that can help improve the functioning of the stock market in Nigeria. The following recommendations were reached based on the findings obtained for the period of this study.

- i. During inflation people prefer to hold money than to buy Shares or bonds this will negatively impact on the All share index, Turn Over Ratio and Market capitalization in the long run. Therefore, in order to improve and sustain Stock market performance government is therefore advised to formulate and implement monetary policies that would reduce inflation, facilitate and improve the performance of stock market since inflation has a direct negative impact on the standing of stock market all share

- index in the country for the period of this investigation.
- ii. The statistical properties for stock market capitalization ability for the period of this investigation reflected a positive but insignificant position in Nigeria during the period of inflation, it is therefore advised that government through monetary authorities in the country, especially the central bank of Nigeria should checkmate the activities of inflationary trend level in the country to avoid hyper inflationary trend that affects the performance of stock markets in the nation.
  - iii. The central bank of Nigeria should take appropriate steps to curtail the tales of consistent increases in prices of goods and services in the economy that affects the performance of the stock market negative. We hereby recommend the establishment of a monitoring and evaluation framework to assess the impact of these measures over time. This we believe will ensure accountability and help policymakers make necessary adjustments if the recommendations do not yield the desired results.

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