The Effect of Macro Economic Variables on Stock Market Return at the Nairobi Securities Exchange

Date
2016

Author
Ndegwa, Esther N

Type
Thesis

Language
en

Abstract
The Nairobi Securities Exchange has an important part in the Kenyan Economy as it provides a platform for companies and individuals to invest. The study sought to establish the effect of macroeconomic variables on stock returns at the NSE. The macro-economic variables which were used in the study were money supply (M2), the US$ exchange rate and the CBK lending rate. Monthly secondary data for the period July 2011 to June 2016 acquired from the Central Bank of Kenya and the NSE was used in the study. The study concluded that there was a weak positive effect of 15.7% of the macroeconomic variables that were selected for the study on the stock returns at the NSE. The study established that the exchange rate (US$/Kes) had a major effect on the stock returns for the period of study. Money supply (M2) and the CBK lending rate were found to have an insignificant effect on the stock returns. Money supply had a positive effect on the exchange rate whereas the CBK lending rate was found to be negatively influenced by the money supply and the exchange rate. The Granger Causality test showed that exchange rate Granger Causes stock market returns. The exchange rate also was found to Granger Cause money supply and CBK lending rate. The study recommended that the CBK lending rate could therefore be used to lower simultaneously the amount of money supply in the economy and the rate of foreign currency exchange to Kenya Shilling. The study also recommended that CBK should ensure that it improves on measures that control the money supply, the exchange rate and CBK lending rate as they affect earnings at the stock market. The NSE should enhance policies that promote investment. Further studies should be carried out incorporating other macroeconomic variables not included in this study like inflation, GDP, consumer price index etc. making use of longer period of study and confirming the effect of then new form of governance in Kenya

URI
http://hdl.handle.net/11295/98904

Publisher