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# Relationship between stock returns and inflation

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## Abstract

The question of whether common stocks can act as a hedge against inflation has received tremendous attention in the economics and finance literature, but with little or no evidence for African countries. This letter examines the Fisher hypothesis for 6 African countries. Using OLS estimates we find positive relationship between inflation and stock returns in Kenya and Nigeria. However, instrumental variable estimates provide consistent results and confirms the validity of a generalised Fisher hypothesis in 3 markets over a 10 month horizon. The results suggest that common stocks can act as a hedge against inflation.

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<sup>1</sup> The studies such as Anari and Kolari ([2001](#)) use cointegration while studies like Spyrou ([2001](#)) concentrate on both short- and long-run methods.

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