ABSTRACT

This study investigates the impacts of macroeconomic variables on stock market returns in Kenya for the period 1978-2011 using annual time-series data. The study precisely focused on the effects of foreign exchange rates, interest rates (represented by the treasury bill rates), GDP growth rates and inflation rates on stock returns at the Nairobi Securities Exchange. It employed a multiple regression model using the Ordinary Least Squares technique (OLS) to test the relationship between the stock returns and the explanatory/macroeconomic variables. The Granger Causality test was also run to show the relationship between the dependent and independent variables. The main findings of the study were found to be significant and consistent with economic theory and the findings of previous studies done on the topic. GDP growth rate was found to have a positive effect on stock returns whereas the foreign exchange rate and treasury bills rate were found to impact on stock returns negatively. Inflation rates were found to have a positive effect on stock returns implying that when inflation increases, stock returns will also increase. The study finds that inflation rate and GDP growth rate to be the most significant variables in explaining stock returns. On the other hand, treasury bills rate and foreign exchange rate do not appear to have any significant effect on stock returns at the NSE.