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Influence of Traditional Cross Border Investment Vehicles on Nigeria and Kenyan Capital Market Performance

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Abstract

This study examined how traditional cross-border investment vehicles affected the performance of the capital markets in Kenya and Nigeria between January 2011 and December 2020. Traditional cross-border investment vehicles included the exchange rate, monetary policy rate (also called the central bank rate in Kenya), inflation rate, crude oil price, and credit rating. However, one other variable, stock market returns, was used to measure the success of the capital market. Established economic and financial theory, its application in related research, and the availability of data all influenced the variables' selection. The partial coefficients of the endogenous variables were found using an ex post facto research strategy in a multiple regression analysis framework. The test revealed that the data series had mixed integration, requiring the Autoregressive Distributed Lag (ARDL) model to be applied. According to the results of the ARDL boundaries test, there was a long-term association between the performance of the Nigerian and Kenyan capital markets and the impact of traditional cross-border investment vehicles. Long-term projections showed that the impact of conventional cross-border investment vehicles on the performance of the Kenyan and Nigerian capital markets differed depending on the model. In particular, the long-term projections demonstrated that the exchange rate and monetary policy dynamics had a greater impact on the Nigerian capital market than on the Kenyan one. However, long-term projections indicated that inflation and variations in the price of crude oil had a greater impact on the Kenyan capital market than in Nigeria. Credit rating had a significant negative impact on the Nigerian capital market, but it appeared to have less of an impact on the Kenyan capital market. Regarding the error correction models, it was found that following a relatively brief shock, all the models automatically adjusted to equilibrium. Traditional cross-border investment vehicles also showed time-varying effects at various lag lengths, according to the error correction models.

Keywords: Traditional cross-border investment, investment vehicles, capital markets, stock market returns.

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Background to the Study

Cross border Financing is a fiduciary arrangement that transmits across national boundaries. Cross border financing could include but not limited to cross border loans and advances, letters of credit, remittances or marketable securities. In cross-border financing, currency risk and political risk are also present, which implies that adverse conditions like currency devaluation, exchange rate fluctuations, elections or *coup d'état* could hinder the smooth running of the business. Cross-border banking has long been an important part of the trend towards increased globalization and financial integration. Many of the determinants of cross-border banking identified in the literature are as expected — countries' creditworthiness, quality of institutional environment and growth opportunities. The effects of cross-border capital flows have positive as well negative implications, although increased access has largely been available for selected groups of borrowers due to prevailing domestic circumstances. Stability of international capital flows have generally been found to be favourable as international financial integration allows for greater international specialization and diversification (Obstfeld, 1998). Of course, international capital flows can add to financial risks, among others, through contagion effects (Dornbusch, Park and Claessens, 2000 and Claessens and Forbes, 2001). The entry of foreign banks has generally been adjudged favourable on the development and efficiency of domestic or host banking systems (Micco, Panizza and Yanez, 2004; Mian, 2003).

In opting for cross border investment, a due knowledge of the host country is key and necessary. In this regard, a proper understanding of the political and legal framework is paramount. This understanding will help eliminate undue bottlenecks. In addition to the political and legal system, economic condition, social and cultural affiliations and market attractiveness should be appraised.

From a global perspective, Europe and America have played key roles in Cross border investments for a very long time. The strong European position in this regard has been linked to the European single market (European Union) with its resultant integration and synergy. Also, Congressional Budget Office believed that American investments yield better returns from cross border investments (Hung and Mascaro 2004). These have propelled the huge cross border investments of the United States in other parts of the world.

In Africa, Cross border investments, especially as it concerns the banking industry, flourished in the 18th century. In Ghana, Egypt, Zimbabwe, Tanzania, Uganda, Kenya and Nigeria, cross border investment was predominant with the advent of Barclays Bank in 1925, which witnessed a rise in ownership structure to about 62% before its official withdrawal from the continent in 2016 (Mathieu, Pani, Chen and Maino, 2019). Also, for the purpose of integration and free flow of capital, the African Exchanges Linkage Project (AEPL) was established. AELP is a joint initiative by the African Securities Exchanges Association (ASEA) and the African Development Bank to unlock Pan-African investment flows, promote innovations that support diversification for investors, and address depth and liquidity in the markets. It is funded by the Korea-Africa Economic Cooperation (KOAFEC) Trust Fund through the African Development Bank using these exchanges as pilot channels: Bourse Régionale des Valeurs Mobilières (BRVM, integrating eight West African countries), Casablanca Stock Exchange, the Egyptian Exchange, Johannesburg Stock Exchange, Nairobi Securities Exchange, the Nigerian Stock Exchange and Stock Exchange of Mauritius. In this regard, cross-border trading between the seven markets totalled $1.1 billion in 2019, and was at over $500 million in the first quarter of 2020, according to the participating markets. The "African Listed Securities" assets across these exchanges offer equities investments in more than 1,050 companies, including Africa's most promising, profitable companies and global

leaders. Investors will also buy or sell bonds, exchange-traded funds (ETFs) and derivatives if they are listed on the participating Exchanges. (ASEA, 2020)

Cross-border investment vehicles, on the other hand, are the forces behind, instruments for, and stimulants of cross-border investment. It is through them that foreign investments are made possible. According to published research (Hooda, 2009; Faroh and Shen, 2015), the primary factors influencing cross-border investments in developing nations include inflation, exchange rates, labor costs, corporation taxation, stable political environments, infrastructure, and interest rates. The exchange rate, interest rate, inflation, credit rating, output, gross domestic product, and crude oil price are recognized investment vehicles (Lien and Zhang, 2008). These international investment vehicles serve as a mirror reflecting the image of the potential host nation to a foreign investor. When a nation's economic conditions are not favourable and sustainable, it shows in the numbers and values of these metrics.

Exchange rates are the prices at which one nation's currency can be swapped for that of another. A high exchange rate will deter exporting and have a negative impact on foreign direct investment since it is essential for luring foreign direct investment. In the literature, the topic of exchange rates has frequently come up. One of the most significant relative prices in the economy is the exchange rate. This is because fluctuations in the real exchange rate have an impact on domestic prices, the balance of payments, economic resource allocation, the level and composition of production, consumption, and employment, as well as international trade flows (Kiguel, 1992). It is believed that the exchange rate plays a significant role in transferring trade shocks to current account fluctuations (Amaghionyeodiwe & Osinubi, 2005)

The interest rate is the proportion of principal that is paid over the course of the loan term at various points in time. In Nigeria, interest rates are a byproduct of monetary policy rates, which determine how much the Apex bank lends to commercial banks for on-lending operations. From a wider angle, Monogbe and Okah (2017) believed that high interest rates on loanable funds raise the cost of capital, which, in turn, deters investors from raising their capital and, ultimately, deters foreign investment.

The rate at which the overall prices of goods and services continue to rise is known as the inflation rate. Inflation means that too much money is being spent on too few goods. Because inflation affects monetary policy, there is increasing interest in its effects on the economy and institutions. In many nations, low inflation and global competitiveness have emerged as desirable goals because they demonstrate the stability of the cost of goods and services in these environments. By taking a purposeful monetary policy stance aimed at maintaining domestic price stability and promoting economic growth, central banks all over the world maintain low rates of inflation.

An individual, group, or company's credit rating is an evaluation of the borrower that establishes whether the borrower will be able to repay the loan on schedule in accordance with the terms of the loan agreement. For both the borrower and the lender, credit rating is crucial because it influences investment choices, loan approval, repayment plans, safety guarantees, and reasonable interest rates. Credit rating could be used for the following: SME rating, public finance rating, project finance rating, corporate debt rating, corporate governance rating, financial sector rating, issuer rating, infrastructure sector rating, insurance sector rating, mutual fund rating, and bank loan credit rating. Nigeria's borrowing costs are significantly impacted by the credit rating that Sovereign Wealth Funds, pension funds, and other investors use to determine an individual's credit worthiness. FGN passed the Credit Reporting Act 2017 to increase credit availability by

establishing guidelines for credit reporting, credit bureau registration, and regulation. The statute guarantees that credit providers have access to trustworthy and accurate credit data about potential borrowers. It accomplishes this by establishing guidelines and requirements for the creation and functioning of credit-rating organizations. Before deciding who to give credit to, credit companies will be permitted to consider a borrower's credit history thanks to this law. Financial institutions will be more inclined to provide credit facilities to more businesses who require them as a result. On the global stage, Nigeria's creditworthiness has also been assessed by a number of rating organizations. Standard & Poor's credit rating for Nigeria, for example, is B- with a stable outlook as of March 26, 2020. In December 2019, Nigeria's Moody's credit rating was last set at B2 with a negative outlook. As of April 2020, Fitch's credit rating for Nigeria was B with a negative outlook (Trading Economics, 2020).

Investors can determine how strong or weak an economy is by looking at its gross domestic product. It is the sum of all the commodities and services produced in the nation during a specific time frame, generally a year. As of January 2021, Nigeria's GDP was $466.88 billion, while Kenya's was $105.65. It illustrates the economic health of the nation prior to the devastating impact of the worldwide epidemic. GDP growth is anticipated in tandem with improved government economic policies. This will attract international investors who would have high expectations for their return on investment.

Any nation's ability to build its infrastructure is essential to drawing in foreign investment. A physical infrastructure in a condition of disrepair will not appeal to potential investors. It would be easy to determine a nation's ideal level of infrastructure investment if commodities prices were fixed and political restrictions did not exist. Investments in infrastructure should grow gradually while minimizing the expenses associated with investment adjustment. It is considerably more difficult to carry out an investment plan that grows gradually and smoothly over time if a nation's income is derived from a commodity whose price fluctuates greatly (Devlin and Titman, 2004).

The government and businesses in Kenya have implemented policies aimed at improving the country's economic prospects, which is a surefire way to attract foreign investment. Kenya's capital market was named the best-performing capital market in East Africa in 2019. In terms of luring in foreign capital, this is a positive step (either in portfolio or direct investment). After South Africa and Botswana, reports indicate that Kenya's financial market is the third most appealing in Africa (CMA, 2019). Six major areas were evaluated in the report: market depth, foreign exchange access, market transparency, tax and regulatory environment, macroeconomic opportunity, and the enforceability and legality of standard financial markets master agreements. According to the report's conclusion, Kenya's openness regarding foreign exchange access and its robust legal and enforcement frameworks supporting financial agreements that offer alluring opportunities to foreign investors and successful trading of derivatives single stock futures at the Nairobi Securities Exchange (NEXT) were the two main reasons for the country's favorable performance.

At home, the Nigerian government has implemented measures to improve the gray areas of concern through the ease of doing business window. The Executive Guide (2018) noted that the Nigerian business environment will be improved by better road and electricity infrastructure, easier access to credit, better exchange rates, and easier market access. Notable is the Nigerian Capital Market master plan (2015-2025), which was introduced in June 2015 with the goal of stimulating creative endeavors and bringing about a period of strong capital market growth. According to the International Organization of Securities Commissions' (IOCSCO) recommended international best practices, this is anticipated to stimulate capital market activity.

Capital Market Performance refers to the general expansion and enhancement of the long-term fund market. Profitability, global visibility, transaction volume, creative products, market information accessibility, and so forth are all aspects of this performance. It is crucial to understand that, as this study's earlier paragraphs have covered, traditional investment vehicles in any nation are essential to improving the capital market's performance. It is impossible to overstate the importance of developing the capital market since it is a surefire way to boost the economy.

In light of the present trend toward financial integration in Africa and other regions of the world, cross-border investment studies are now required to chart a new course for Africa's developing financial markets (money and capital). In light of this, this study was created to assess how traditional cross-border investment vehicles affected the capital market outcomes of Kenya and Nigeria, two top-performing economies in East and West Africa, respectively.

Statement of the Problem

The majority of cross-border investment studies paid less attention to Sub-Saharan Africa and more to the developed economies of America and Europe (Mathieu, Pani, Chen, and Maino 2019). As a result, the area is relatively uncharted, underdeveloped, and untapped.

However, the key factors that drive cross-border investments—a stable exchange rate, low inflation, full employment, infrastructure development, improved credit rating, political stability, and single-digit interest rates—have not been consistently improved by African leaders. Due to the distant desire to transfer African riches overseas and the corruption that has plagued the continent in recent decades, the desire to draw in international investment has also not gained much attention. High levels of corruption are likely to make the issue of information asymmetry worse and raise other aspects of the cost of doing business.

As a result, the development and operations of the capital market have changed globally. Policy reversals, differences in exchange rate regimes, and unfavorable investment climates have all contributed to the differential assimilation rates in sub-Saharan African nations. Research shows that a favorable investment climate encourages any economy's profitability and strong growth (Uremadu and Sunday, 2016).

The most significant recent setbacks to the Nigerian capital market were the global financial crisis of 2008 and the economic downturn that lasted from the second quarter of 2016 to the final quarter of 2017. Nigeria's economy entered a recession after surviving the global financial crisis of 2008, as indicated by the country's economic contraction and distress, unstable exchange rate, high rate of inflation, unemployment, low GDP growth rate, and other indicators (Agri, Mailafia & Umejiaku, 2017; Onyele, Opara & Ikwuagwu, 2017). This is based on data from the Central Bank of Nigeria and reports from the National Bureau of Statistics (2016). As a result, the multiplier effect of the current economic slump is thought to be the cause of the troubled Nigerian capital market. As a result, it seems that Nigeria has rejected the traditional adage that the capital market is a catalyst for growth. Nigeria has experienced severe economic instability in the wake of the recession, with the inflation rate rising from 12.0% in 2015 to 18.0% in 2016, the average official exchange rate (Naira/Dollar) depreciating further from ₦196.50 per dollar to ₦304.50 in 2016, all share indexes falling from 28,642.3 to 26,874.6, and a massive contraction in overall economic activity (CBN, 2018). Therefore, it is reasonable to assume that the observed changes in economic variables had a negative impact on the Nigerian stock market. The fact that Nigeria's economic recession is not the first of its sort raises concerns, but what's even more concerning is that it coincides with macroeconomic difficulties including poor investment and high macroeconomic instability. Therefore, based on the scenario described above, it

would be wise to evaluate the impact that these cross-border investment vehicles are having on the capital market in Kenya and Nigeria.

The SEC (2015), Ohaeri (2017), Fiador and Asere (2012), and Okereke-Onyiuke (2000) are among the emerging studies that focus on capital market development and have promoted cross-border investment in financing, mergers, acquisitions, and portfolios. The lack of research on Exchange Traded Funds (ETF) as a factor in cross-border investment in Nigeria and Kenya in the literature will contribute to new developments and trends in capital market research.

Research Question

The following research question has been formulated to guide the study in line with the stated objectives:

1. What is the significant difference between Traditional Cross Border Investment Vehicles and Stock market returns in Nigeria and Kenya?

Research Hypothesis

The following hypothesis was formulated and tested:

1. There is no significant difference between Traditional Cross Border Investment Vehicles and Stock market returns in Nigeria and Kenya

Literature Review

Conceptual Framework

Stock Market Returns (SMR)
This is the financial reward that accrues to the investor who has invested in the capital market. A return can be expressed nominally as the change in naira value of an investment over time. It can also be expressed as a percentage derived from the ratio of profit to investment. SMR is usually presented as net results after taxes, fines, fees and inflation or gross returns that do not account for anything.

It represents a change in price of an asset, investment, or project over time, which may be represented in terms of price change or percentage change. A positive return represents a profit while a negative return marks a loss. It is often annualized for comparison purposes, while periodic return calculates the gain or loss during the entire period an investment was held. The real return accounts for the effects of inflation and other external factors, while the nominal return is only interested in price change. The total return for stocks includes price change as well as dividend and interest payments. Several return ratios exist for use in fundamental analysis

Theoretical Framework
Hymer's Theory of Internationalization
Stephen Hymer is the father of International Business due to his contributions related to Foreign Direct Investment as well as his studies and academic production on the field of theories of multinational enterprises (Dunning and Pitelis (2008)). Before his theory on FDI, all investments were mere capital movements across borders. These movements of capital were thought to be determined mainly by the differences in interest rates between the countries. Hymer established that there was a distinction between financial investments Hymer's theory states that the main intentions for internationalization of companies are: variables connected to the company's ownership of specific assets and dimension; and

variables caused by existence of market inefficiencies. Hymer stated that "foreign direct investment is beneficial when firm-specific advantages across nations allow overcoming additional costs of doing business abroad."

The theory presented by Stephen Hymer is considered a departure from neo-classical perspective and the consideration of a perfect market structure. Hymer's main conclusion is that foreign direct investment can only succeed if there are market imperfections that can create advantages and conflicts. Hymer's theories became the new theoretical approaches in the field of international business.

Empirical Review

Literature across the globe were reviewed in the order of geography and timing, giving due attention to the Cross Border Investment Vehicles highlighted earlier in the objectives.

Gross Domestic Product and Capital Market Performance

Onulaka (2014) examined the impact of adoption of IFRS in Nigeria capital market; looking at the challenges facing the preparers and auditors of IFRS based financial statements in Nigeria. The study used structured questionnaire for primary data collection and analysis of variance (ANOVA) technique for the analysis. Findings revealed an increase in the volume of trading in the capital market and the training gap on the part of preparers and auditors of IFRS based financial statement.

Arodeoye and Iyoha (2014) investigated the relationship between foreign trade and economic growth in Nigeria, utilizing a quarterly time-series data for 1981 Quarter 1 through to 2010 Quarter 4. Using the vector autoregressive model is utilized. They discovered that there is a stable, long- run relationship between foreign trade and economic growth. It was discovered that the major sources of Nigeria economic growth variation are due largely to "own shocks" and foreign trade innovations.

Yadirichukwu and Chigbu (2014) empirical investigation on the impact of capital market on economic growth in Nigeria covering 1985-2012 using multivariate co-integration and error correction methodology. Their finding reported that two of the stock market variables (new issues (TONIS) and value of transaction (VALTRAN) exhibited positive and statistically significant relationship with economic growth, while two of the stock market variables (Market capitalization (MKTCAP) and Total listing (TOLIST) exhibited inverse and statistically significant relationship with economic growth in Nigeria. This stimulates dialogue on the implication for policy simulation. The study reveals that the Nigerian capital market is significant to economic development as value of transaction traded on the Nigerian Stock Exchange affects gross domestic product positively.

Onulaka (2014) empirically investigated the effect of audit expectation gap in Nigeria capital. In the study, a cross-sectional survey was conducted in Lagos and Abuja stock Exchange to capture the perception of key users of financial statements in Nigerian capital market. The study employed the Chi-square (x2) test techniques and discovered a wide expectation gap in the areas of auditors 'responsibility for fraud prevention and detection in Nigeria.

Oluwatosin, Adekanye & Yusuf (2013) examined the impact of Nigerian capital market on economic growth and development between 1999 and 2012. The study explored secondary data collected from security Exchange Commission reports, Nigerian Stock Exchange Review Reports, and central Bank of Nigeria Statistical bulletin. Methodology employed was ordinary least square regression analysis while the result showed that capital market indices had not significantly impacted on the GDP in Nigeria. This was attributed to low market

capitalization, low absorptive capitalization, illiquidity, and misappropriation of funds among others

Atoyebi, Ishola, Kadiri, Adekunjo and Ogundeji (2013) evaluated the impact of capital market on economic growth in Nigeria using the Vector Auto Regression technique on annual data from 1981 to 2010 and the results of the empirical investigation revealed that market index and market capitalization were statistically significant at 10%, and an increase in the coefficient value market index and market capitalization brought about 33.7 and 44.8 percentage increase in reel GDP while the Johansson co-integration revealed the existence of long run relationship between stock market and real GDP.

Usman and Alfa (2013) suggested a more comprehensive and dynamic impact of stock market on economic growth in Nigeria from 1981 to 2012, using the Augmented Dickey fuller (ADF) diagnostic test, Johansen co integration test vector error correction model (VECM) and granger causality test. The result of the stationary test shows that every series are stationary at first differential and integrated or order one (1) the result of the Johansen cointegration test shows that there is a long run relationship, given the trace statistics greater than the critical values at various rank. The result of VECM shows a positive relationship between market Capitalisation, market size, real gross domestic product (RGDP) with the causal effect running from GDP to market Capitalisation. There is also an existence of short run relationship between value traded and RGDP with value traded surpass RGDP.

Edame and Okoro (2013) discuss the impact of capital market on economic growth in Nigeria. The ordinary least square (OLS) regression technique was used in the study. From the findings, it was obtained that capital market has positive and significant impact on economic growth in Nigeria

Kolapo and Adaramola (2012) examined the impact of the Nigerian capital market on economic growth from 1990-2010. They employed ordinary least squares (OLS) regression analysis procedures capturing to integration and granger causality. Their results revealed that activities in the capital market impact positively on the economy

Kolapo and Adaramola (2012) examined the impact of the Nigerian capital market on its economic growth from the period of 1990-2010 using Johansen co-integration and Granger causality tests on economic growth proxied by Gross Domestic Product (GDP) and capital market variables Market Capitalization (MCAP), Total New Issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS). Their results showed that the Nigerian capital market and economic growth are co-integrated. This implies that a long run relationship exists between capital market and economic growth in Nigeria. The causality test results revealed a bidirectional causation between the GDP and the value of transactions (VLT) and a unidirectional causality from Market capitalization to the GDP and not vice versa. The standard error test results revealed that the activities in the capital market impacts positively on the economic growth of the country

Idowu and Babatunde (2012) investigated the effect of financial reform on capital market development in Nigeria over the period 1986 to 2010. The study used Ordinary Least Square (OLS) techniques and Chow-break-point Test. The result revealed that the financial reform of 1995 impacted significantly on the capital market development in Nigeria. However, finding revealed that the variables that represent the development of the banking sector, the activities of the Central Bank and other financial institutions interacted negatively with market capitalization which implies that the activities of those institutions deterred the development of the capital market.

Angahar and lorpev (2012) empirically analyzed the effect of insecurity on capital market performance and economic growth in Nigeria. The study used data on peace index (PINDEX) and peace score (PSCORE) as proxy for insecurity, market capitalization as proxy for capital market performance and gross domestic product (GDP) a proxy for economic growth and total of listed equity and government stock as control variable collected from the global peace index (GPI), central bank of Nigeria (CBN) annual report, securities and exchange (SEC) annual report and Nigerian stock Exchange (NSE) annual report for a period of five years (2007-2011). Multiple regression analysis technique was employed while the result showed a negative relationship between capital market performance, economic growth, and insecurity in Nigeria. Particularly, the result showed that peace index is statically significant to capital market performance while peace score is not. However, peace score is statistically significant to economic growth while peace index is not statically significant.

Bernard and Austin (2012) pointed out the importance of stock market development on economic growth in Nigeria, using time series data for the sample period of 1994 to 2008 and the simple OLS ordinary least square regression analysis. The result shows that stock market Capitalisation and value traded have a negative impact on economic growth in Nigeria although the significance is not statistically significant.

Kolapo and Adaramola, (2012), showed that stock markets have a Positive impact on economic growth with stock market granger causing economic growth in Malaysia. Mohammed et al (2008) discovered a long run relationship between stock market and economic growth.

Autonios (2010) examines the causal relationship between stock market development and economic growth for the period of 1965-2007 in Germany using vector error correction model (VECM) and the Johansen co integration analysis based on the classical unit roots tests. The results of granger causality tests showed that there is a unidirectional causality between stock market development and economic growth with direction from stock market development to economic growth.

Enisan and Olufisayo (2009) examined the long run and causal relationship between stock market development and economic growth for seven countries in Africa using the autoregressive distributed lag (ARDL) bounds test. Results from their study suggested that stock market development is cointegrated with economic growth in Egypt and South Africa. The Granger causality test within the VECM framework showed unidirectional relations running from stock market development to economic growth. The study suggested that policy makers in the continent should encourage stock market development through appropriate mix of taxes, legal and regulatory policies to remove barriers to stock market operation and thus enhance their efficiency.

Wang and Wong (2009) studied Foreign Direct Investment and economic growth; they employed data from 69 nations between 1970 to 1989 under two economic situations; “human capital and well-developed financial markets”. They discovered the extent of the correlation between foreign direct investment and growth; they noted that these two situations could be fundamentally different catalysts for foreign direct investment to stimulate economic growth from the viewpoint of growth accounting.

International Oil Price (Crude Oil) and Capital Market Performance

Diaz et al. (2016) explore the co-movement between oil price volatility and stock returns in the G7 economies using monthly data for the period from 1970 to 2014. The evidence from the vector autoregressive model analysis supports the existence of an inverse relationship

between oil price volatility and stock market performance. Also, the world oil price volatility has a more significant negative impact on stock markets than the national oil price volatility.

Salisu and Oloko (2015) deploy the vector auto regression moving average-asymmetric generalized conditional heteroscedasticity (VARMA AGARCH) model with a modification that includes endogenously determined structural break (in estimating returns), volatility, shock spill over, and own-market and cross-market asymmetric effects, for oil price and US stock market. The authors found strong evidence for a bi-directional shock spill over from the two markets, a cross-market asymmetric shock spill over, and volatility spill over from oil market to stock market in the pre-break, however, the impact of volatility spill over from oil market to stock market was evident in the post-break period. Their study proved that the effects of oil price on the stock market under different economic conditions lack consistency

Alley, Asekomeh, Mobolaji, & Adeniran (2014), employed the general methods of moment (GMM) to examine the impact of oil price shocks on the Nigerian economy, using data from 1981 to 2012, the study finds out that oil price shocks insignificantly retard economic growth while oil price itself significantly improves it. The significant positive effect of oil price on economic growth confirms the conventional wisdom that oil price increase is beneficial to oil-exporting country like Nigeria. Shocks however create uncertainty and undermine effective fiscal management of crude oil revenue, hence the negative effect of oil price shocks.

The study by Papapetrou (2001) on Greece economy yields interdependence between oil and stock data and a significant impact of oil price. This provides evidence for positive oil price shocks reducing real stock returns. Similarly, Rafailidis and Katrakilidis (2014) also found that oil prices and stock returns are negatively correlated.

In the United States, Sadorsky (1999) conducted a study based on aggregated stock data, and the studies employed a multivariate vector auto-regression approach. Using monthly data for the US economy, it examined the impact of oil price shocks on market returns and two other key macroeconomic measures-industrial production and interest rate. The findings show that positive oil price shocks affect real stock returns and a more significant fraction of the forecast error variance in stock returns is credited to movements in oil prices rather than the interest rate.

Ftiti et al. (2016) investigate the co-movement between oil and the stock markets in G7 economies and distinguish between interactions based on fundamentals (long-term interdependence: high memory impact) and contagion (short-term relationship: transitory contamination). The study employs the wavelet and dynamic correlation approaches and reports that the interrelationship between oil price and the stock market which is evident in the short and medium terms than in the long run. Also, the study proved that stock markets are more sensitive to oil shocks originating from demand shocks.

Cheung and Ng (1998) found empirical evidence in support of a long run relationship between some stock market indices and some macroeconomic factors including oil prices. They found a negative correlation between oil prices and stock prices; they argued that increase in oil prices generally leads to increase in cost of production and then a fall in aggregate output.

Brasher (2004) in their analysis of how the oil affects stock market documents that authors found in the case of the U.S.A that all sectors are not affected equally, or at the same time. They found that when oil prices rise cyclical stocks are the most negatively influenced, cyclical consumer goods are the nest most negatively influenced, and lastly financials are the

next most negatively influenced. According to the documentation cyclical stocks include, general retailers, support services, leisure and hotels, entertainment and media. Cyclical consumer goods comprise household goods and textiles, automobiles and parts, while the financials are the investment companies, banks, especially and other finance, life assurance and insurance and real estate. Beyond this analysis it is also obvious that stock prices and stock prices are inversely related in the USA

Bashar and Sadorsky (2006) explain that the extension of the law of demand and supply is applicable to oil price movement s. A demand surplus for oil leads to price increase. The oil price increase creates an indirect effect on the stock price through (i) oil price increase acts like an inflation tax. (ii) makes consumers source for alternative energies (iii) increases in the cost of non-oil producing companies' oil price volatility increases risk and uncertainty which negatively affect the stock price and reduces wealth and investment.

Yurtserver and Zahor (2007) studied the impact of oil price shocks on the stock returns in Netherlands. They found that oil shocks have a negative impact on stock returns of some industries and individual companies, whereas they have positive impact on oil and gas companies.

Erygit (2009) investigated the effects of oil price changes on the sector indices of Istanbul Stock Exchange (ISE) Jordan from 2000:01:04 to 2008:01:11. He extended the market model by incorporating oil prices (in Turkish Lira), oil prices in dollars, and the exchange rate between the dollar and the Turkish Lira to determine the effects of oil price changes on the sectoral indices. He found that while increase in oil price (Us dollar or lira) leads to growth in some sector indices, it causes a decline in others. However, the author did not advance reasons for such behaviour which would have guided investors based on his study.

Exchange Rate and Capital Market Performance

Rizwan and Khan (2007) further explained varying importance of domestic macroeconomic variables in explaining the relationship between stock returns and volatility in Karachi stock exchange. According to Schnabl, (2007), a decline in exchange rate uncertainty also enhances price transparency increasing the efficiency of price mechanisms at international level

Ogunleye (2002) investigated exchange rate volatility and foreign direct investment in Sub Sahara Africa (SSA), they investigated nine countries in the region, Country-specific time series data and panel model estimation techniques were employed. He established that exchange rate instability generally limits foreign direct investment inflows to SSA.

Campa (1993) studied Relationship between exchange rate volatility and Foreign Direct Investment. The study opined that the investor's choice on investment abroad is based on the premise of expected future profitability from such investment. Consequential to this, Campa's models foretell "that an appreciation of the host country's currency will increase FDI into the host country".

Alaba (2003) examined exchange rate volatility and foreign direct investment in Sub Sahara Africa economies between 1982 and 1998. He adopted GARCH model and error correction technique. His result revealed that exchange rate volatility was not significant for foreign direct investment inflows in both agricultural and manufacturing segment of Nigeria

Inflation Rate and Capital Market Performance

Daferighe and Charlie (2012) investigated the impact of inflation on stock market performance in Nigeria using time series data for twenty years from 1991 -2010.The regression analysis was used to evaluate the influence of inflation on various measures of

stock market performance; market capitalization (MCAGDP), total value traded ratio (TVMS), percentage change in All-share Index (%ΔASI) and turnover ratio (TOR). It was revealed that these measures were negatively related to inflation in convergence to a priori expectation except for TOR which showed a positive relationship. It was recommended that the Central Bank of Nigeria (CBN) should formulate and use policy statements that will maintain inflation at low ebb in order not to erode the value of gains by investors on stock.

Aperigis and Eleftheriou (2002) agreed that there is a negative link between inflation and stock returns in Greece than in interest rate and stock returns. Ugur (2005) brought out that expected inflation and real returns are not correlated. The results suggest there is a negative relationship between inflation and stock returns which may be caused by the negative impact of unexpected inflation on stock returns. Tamtom (2002) indicated that a negative long-run relationship exist between stock prices and inflation, in turn implying that higher stock prices are associated with lower inflation contrary to recent proposals. It is a common belief that inflation is advantageous to common stock. This is majorly because it is argued that inflation increases the returns to shareholders since price of products rise faster than wage rates. The expected relationship between inflation and returns to owners of equity would be valid if business firms were debtors and if the current interest rates on debt finance failed to reflect the future changes in the price level.

Interest Rate and Capital Market Performance

Muktadir-Al-Mukit (2012) explored the effect of interest rates and exchange rates on stock market performance using time series data for the economy of Bangladesh over the period of 1997 to 2010. The study employed Cointegration, Error Correction Model, Variance Decomposition and Granger causality test. The results of the analysis revealed that in the long run, interest rate has a negative and exchange rate has a positive impact on stock prices.

Ajagbe (2015) studied the effect of interest rate on capital market growth in Nigeria covering 1985 to 2009 using Ordinary Least Square (OLS) method of analysis. The study revealed that interest rate has a negative effect, while consumer price index has a positive effect on the capital market as proxied by All Share Index.

Shubita and Al-Sharkas (2010) used VAR to analyze the causal relationship between interest rates, inflation rate, and real activity and stock returns in the USA, and reported that stock appeared to be Granger-causal with the macroeconomic variables, including interest rate. They also computed the impulse response functions and the generalized forecast error variance decomposition. The results revealed an unrestricted VAR as a function of the size of stock returns. Findings suggested that stock returns are an indicator of macroeconomic performance, however, though stock returns are affected by interest rate, it does not lead to real economic activity as represented by industrial production.

Uddim and Alam (2010) examined the impact of interest rate on stock market using data from Dhaka stock exchange from May 1992 to June 2004. OLS regression technique was used for the analysis. It was found that interest rate has significant negative relationship with share price and growth of interest rate also has significant negative relationship with growth of share price.

Uddin and Alam (2007) examined the linear relationship between share price and interest rate as well as share price and changes in interest rate. In addition, they also explored the association between changes in share price and interest rate and lastly changes in share price and changes in interest rate in Bangladesh. They find for all of the cases that Interest Rate has

significant negative relationship with Share Price and Changes in Interest Rate has significant negative relationship with Changes in Share Price.

Vaz, Ariff and Brooks (2008) studied the effect of changes in official interest rates on the stock returns of the major banks in Australia during the period spanning 1990 to 2005 using regression analysis. The study found that Australian bank stock returns are not negatively impacted by the announced increases in official interest rates. Furthermore, the study affirmed that banks apparently experience net-positive abnormal returns when cash rates are increased, which is consistent with dividend valuation theory that suggests if income effects dominate, then stock returns need not be negatively impacted.

Model

This model considered the implication of Stock Market Returns as a measure of performance on the traditional cross bother investment vehicle as shown below

SMR= EXR, INTR, CRDT CROILP, INFL - - - Eqn.3.6

Where

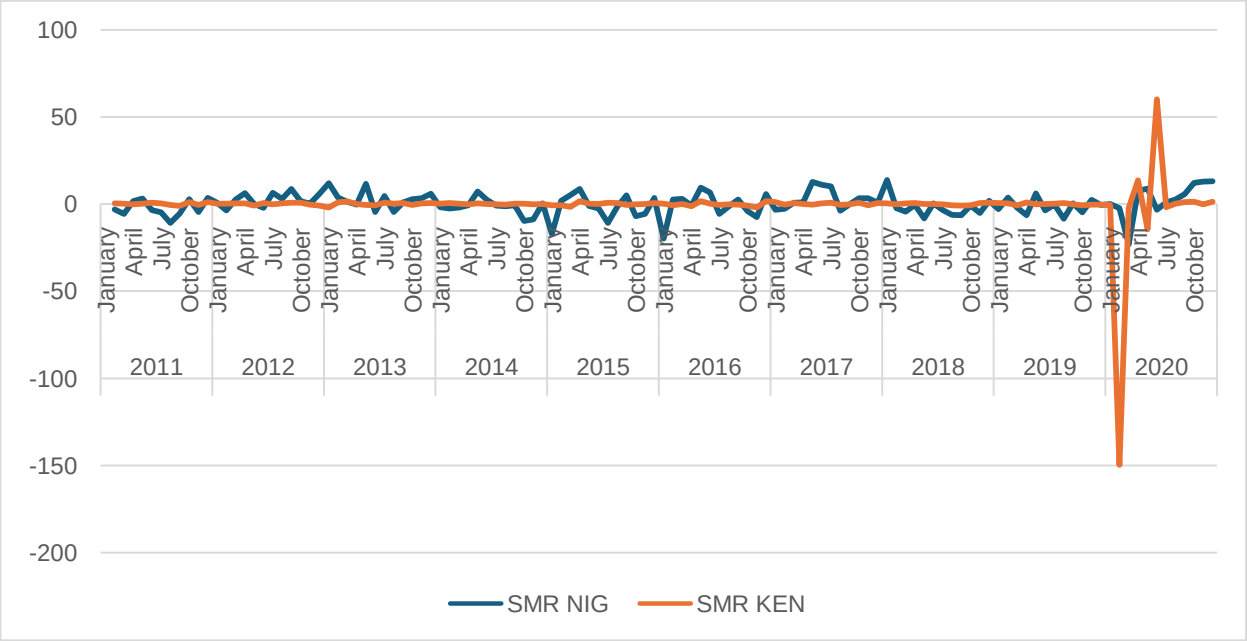
SMR= Stock Market return

$$\text{Log(SML)} = \beta_0 + \beta_1 \text{ Log(EXCR)} + \beta_2 \text{Log(INTR)} + \beta_3 \text{ Log(CRDT)} + \beta_4 \text{ Log(CROILP)} + \beta_5 \text{ Log (INFL)} + \varepsilon$$

- - - Eqn.3.7

Trend of stock market returns

The trend of stock market returns (SMR) for Nigeria and Kenya are displayed in Fig. 1:



Trend of stock market returns (SMR)

The SMR series fluctuated all through the sampled period but appeared to be more unstable in Nigeria probably due to series of macroeconomic downturn experienced in Nigeria such as the 2016 recession and oil price shocks. Every appreciation of SMR is, therefore, an indication of potential gains for investors. Both the Nigerian and Kenyan SMR plunged in 2020 due to the COVID-19 crisis, but the trend shows that the Kenyan SMR rose faster than

that of Nigeria in the same period. The reason for this is, unlike the Kenyan market, the Nigerian stock market is underperforming due to frequent market manipulation apart from general risks and governance indices. Hence, the Nigerian market has failed to score high integrity and have trigger divestments. Additionally, Nigeria's lopsided expenditure pattern in favour of recurrent, debt service and statutory transfers has failed to bring market development. Also, the country remains burdened by an army of unemployed and dependent population.

Table 1: ADF unit root test results

	ADF at level: I(0)		**ADF at first difference: I(1)**		
Panel A: Nigeria					
Variable	t-Statistic	Prob.	t-Statistic	Prob.	Conclusion
LOG(ASI)	-1.500730	0.8242	-8.788834	0.0000	I(1)
LOG(MCAP)	-1.507366	0.8219	-9.393716	0.0000	I(1)
SMR	-9.009844	0.0000	--	--	I(0)
LOG(ETF)	-1.990234	0.5997	-13.30988	0.0000	I(1)
LOG(EX_RATE)	-2.146855	0.5141	-5.458267	0.0001	I(1)
MPR	-2.850056	0.1828	-10.78412	0.0000	I(1)
INFLR	-1.783701	0.3869	-3.350183	0.0149	I(1)
LOG(CROIP)	-3.126695	0.1050	-8.515171	0.0000	I(1)
LOG(CRATE)	-10.23670	0.0000	--	--	I(0)
Panel B: Kenya					
Variable	t-Statistic	Prob.	t-Statistic	Prob.	Conclusion
LOG(ASI)	-3.650699	0.0301	--	--	I(0)
LOG(MCAP)	-6.268954	0.0000	--	--	I(0)
SMR	-7.349747	0.0000	--	--	I(0)
LOG(VDT)	-4.728938	0.0010	--	--	I(0)
LOG(EX_RATE)	-2.905219	0.1648	-7.932485	0.0000	I(1)
CBR	-4.173087	0.0066	--	--	I(0)
INFLR	-3.962792	0.0125	--	--	I(0)
LOG(CROIP)	-3.414426	0.0543	-8.926238	0.0000	I(1)
LOG(CRATE)	-8.756584	0.0000	--	--	I(0)

Source: Computed from the Output of E-views software

The results can be seen in Table 1 where the test-statistic and the p-values are presented. The presented p-values are the MacKinnon p-values and critical values for the ADF test. The significance level of interest is set to 0.05 and 0.01 (5% and 1%) for a more conservative analysis. The conclusion column to the right in Table 1 provides the general conclusion of the test i.e. the order of integration of a certain variable.

As seen in the Table 1 some of the variables are either I(0) or I(1). This highlights the advantage of using the ARDL model as the model in contrast to other similar models such as Johansen's test can be used as long as the variables are either I(0) or I(1). Therefore, the mix of integration is not a problem and no further analysis from this perspective must be done. In general, all the variables are either I(0) or I(1) regardless of time period which implies that the ARDL model can be used, and we can continue with the calculations.

Table 2: Long-run estimates

Variable	**Model** **SMR**
LOG(EX_RATE)	-0.493791 {0.0041}***
MPR	-0.119492 {0.0110}**
INFLR	0.738308 {0.0147}**
LOG(CROIP)	0.196413 {0.3800}
LOG(CRATE)	-0.223078 {0.9886}
C	-2.842200 {0.0109}**
LOG(EX_RATE)	-0.185376 {0.2547}
CBR	0.259433 {0.5008}
INFLR	-0.245111 {0.0001}***
LOG(CROIP)	-0.118157 {0.0000}***
LOG(CRATE)	0.157218 {0.4847}
C	18.35828 {0.9171}

Source: Computed from the output of E-views software

Note: The asterisk *** denotes rejection of the unit root hypothesis at the 1%, while the asterisk ** denotes rejection of the unit root hypothesis at the 5% level respectively. Figures in bracket {prob.} are the probability values.

The long-run estimates indicate that exchange rate (EX_RATE) exerted negative effects on the Nigeria capital market indicators. On the other hand, EX_RATE exerted negative effects on the Kenyan capital market indicators, except for the derivative transactions (VDT) which was positive. This implies that over a long-run period, the dynamics of exchange rate in Nigeria and Kenya respectively hindered progress in their capital markets except for Kenya

where the derivative market appeared to have withstood the exchange rate dynamics. Going by the sizes of the coefficients, it was observed that the exchange rate effect was much higher in Nigeria than Kenya. This can be attributed to the fact that the Nigerian exchange rate is exposed to many factors, especially the mono-economic nature which exposes the country to oil price volatility and excessive payments for importation of refined fuel while the economy of Kenya which is largely based on tourism and hospitality is not being affected by exchange rate swings as much as Nigeria.

Regarding the effectiveness of monetary policy rate (MPR) which is referred to as the central bank rate (CBR) in Kenya, it was found that MPR negatively affected components of the Nigerian capital market except the exchange traded funds (ETF) that was used to measure the derivative market. On the other hand, the CBR positively affected all the components of the Kenyan capital market. This evidence indicates that Kenya practised a more favourable monetary policy that positively enhanced capital market activities unlike the Nigerian experience. This also implies that the MPR prescribed by the Nigerian monetary authority yet to trigger a positive impact on its capital market activities over a long period.

With respect to the crude oil price (CROIP), it was generally seen that while ASI and SMR were positively affected in Nigeria and negatively affected by MCAP and ETF. This clearly shows that in the long-run, CROIP could exert varying impacts on the Nigeria capital market through various channels. Regarding Kenya, CROIP largely caused a negative effect on its capital market components except for VDT were a positive effect was observed. This finding largely implies that the Nigerian and Kenyan capital markets were susceptible to the dynamics of CROIP in the long run. Kenya being a net importer of oil, it means that the extra amount that is spent on purchasing oil products goes to the foreign producers of oil, thus shrinking the country's foreign reserves affecting the domestic purchasing power which translates into poor financial activities in the country. For Nigeria, this could be attributed to its over reliance on oil while for Kenyan it could be because of transmission effects from its foreign investors.

In the long-run, inflation rate (INFLR) exerted more negative effect on the Kenyan capital market than Nigeria. This implies that the inflationary pressure in Kenya caused diminishing effects on its capital market while the Nigerian capital market indices were rising amidst inflationary pressures. This could be that investors in the Nigerian capital market were able to attract more returns amidst inflation than those in Kenya.

From the long-run estimates, it was observed that the Nigerian capital market was generally undermined by its credit rating (CRATE) while the CRATE from Kenya was seen to have an increasing effect on its capital market. This is an indication that Nigeria has a very poor credit rating that significantly distorts capital market activities in the long run. Also, it was well-known that Nigeria has been highly indebted to foreign creditors, thus painting a negative picture of the country which have automatically inhibited its capital market performance. Though, Kenya is also an indebted country, but it appears that its credit rating is more favourable than Nigeria.

ECM for the Nigerian model

The empirical results for Nigerian model three are presented in Table 3.

Table 3: ECM for model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.175109	0.986018	6.262672	0.0000***
D(SMR(-1))	0.221009	0.050894	4.342514	0.0001**
DLOG(EX_RATE)	0.353748	0.301914	1.171685	0.2484
DLOG(EX_RATE(-1))	-0.133251	0.040149	-3.318876	0.0020***
DLOG(EX_RATE(-2))	-0.102965	0.032354	-3.182395	0.0029***
D(MPR)	-0.951020	0.227231	-4.185252	0.0002***
D(INFLR)	-0.187362	0.074592	-2.511833	0.0163**
D(INFLR(-1))	0.261624	1.068724	0.244801	0.8079
D(INFLR(-2))	0.368570	0.179475	2.053599	0.0625
DLOG(CROIP)	0.147291	0.044572	3.304534	0.0020***
DLOG(CRATE)	0.133939	0.157038	0.852910	0.3989
DLOG(CRATE(-1))	-0.302708	0.010520	-2.877582	0.0090***
DLOG(CRATE(-2))	-0.241622	0.082538	-2.927413	0.0080***
ECM(-1)*	-0.370336	0.059539	-6.220014	0.0000***
R-squared	0.884064			
Adjusted R-squared	0.718065			
F-statistic	5.325722			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	2.070567			

Note: The asterisk (***) denotes rejection of the unit root hypothesis at the 1%, while the asterisk (**) denotes rejection of the unit root hypothesis at the 5% level respectively

The ECM (-1) is in consonance with *a priori* expectation since its coefficient is negative (-0.370336) and statistically significant at 1 % level. It then indicates yearly convergence to equilibrium in the long term after every shock or discrepancies in the short-run such that approximately 37% of short-run shock/disequilibrium/discrepancies is corrected monthly. The Adjusted R-squared value of 0.718065 indicates that about 71.8% systematic variation in the stock market return (SMR) is collectively accounted for by the independent variables. The F-statistic of 5.325722 and the associated probability value of 0.000000 indicate a significant linear relationship between the dependent variable and the explanatory variables. The Durbin-Watson statistic of 2.070567 is not substantially different from the 2.00 benchmark and indicative of the absence of the problem of autocorrelation.

A look at the coefficients shows that exchange rate (EX_RATE) was largely negative in affecting SMR in the short run. The negative and statistically significant coefficient of DLOG (EX_RATE (-1)) indicates that exchange rate negatively affected SMR within a period of one month. The negative and statistically significant coefficient of D(MPR) and D(INFLR) are indicative that changes in Nigeria's monetary policy rate and inflation both exerted an instantaneous diminishing effect on SMR. On the other hand, DLOG(CROIP) indicated that crude oil price positively and significantly influenced SMR in the short run. Also, the coefficient of DLOG (CRATE (-1)) shows that Nigeria's credit rating inhibited SMR with a one-month period.

ECM for the Kenyan model

The ECM associated with the SMR model is presented in Table 3. The estimated coefficient of D(SMR(-1)) implies that previous month's stock market returns caused current month's SMR to increase and significantly. Table 3 showed that the ECM was negatively (-0.137970)

signed with a probability value (p-value) of 0.0000 which suggests significance at 1% level. The significance of ECM indicated the velocity of adjustment to the long-run equilibrium after a short-run shock. The coefficient -0.137970 of the ECM showed that about 14% of the discrepancies in SMR are corrected in each period. It is worthy of note that this speed of adjustment is very low, meaning that the adjustment process to restore equilibrium after disturbance is effectively slow and thus takes a long period.

Table 4: ECM for model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SMR(-1))	0.266915	0.118740	2.247892	0.0269**
DLOG(EX_RATE)	0.272723	0.858092	0.317824	0.7513
DLOG(EX_RATE(-1))	-0.280431	0.088574	-3.166055	0.0036***
D(CBR)	0.500060	0.856760	0.583664	0.5608
D(CBR(-1))	0.153301	0.040600	3.775862	0.0013***
D(INFLR)	-0.039140	0.012062	-3.244965	0.0176**
DLOG(CROIP)	0.161163	0.132405	1.217192	0.2265
DLOG(CROIP(-1))	0.335173	0.102461	3.271236	0.0015***
DLOG(CRATE)	-0.161866	0.055639	2.909231	0.0098***
ECM(-1)	-0.137970	0.019113	-7.218469	0.0000***
R-squared	0.635492			
Adjusted R-squared	0.596182			
F-statistic	8.109119			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	1.928213			

Note: The asterisk (***) denotes rejection of the unit root hypothesis at the 1%, while the asterisk (**) denotes rejection of the unit root hypothesis at the 5% level respectively

The positive and significant coefficient of the D(SMR (-1)) indicates that previous month's stock market return is a determinant of the current month's market return. DLOG(EX_RATE(-1)) indicates that the effect of exchange rate within a month period negatively and significantly influence SMR in Kenya. The estimated coefficient of D(CBR(-1)) is indicative of a possible positive and statistically significant impact of the Central Bank Rate of Kenya on SMR within a period of one month. Looking at the coefficient of D(INFLR), it was observed that an increase in inflation caused a diminishing effect on SMR in Kenya. Regarding DLOG(CROIP(-1)), it was realized that increase in crude oil price brought an increase in SMR within a one-month period. The negative and significant coefficient of DLOG(CRATE) showed that the Kenyan credit rating had an instantaneous diminishing effect on SMR.

The goodness of fit of the model as indicated by the R -squared (0.671210) showed that the model fits the data well, the total variation in the observed behaviour of VDT jointly explained by the variation in the traditional cross border investment vehicles up to 67%. The remaining 33% was due to the error term. The overall significance of the model was also tested using the F-statistic. Here, the significance of the F-statistic value of 0.000003 did not occur by chance, it confirmed that the model fitted the data well.

The coefficients of DLOG(VDT(-1)) and DLOG(VDT(-2)) clearly indicated that VDT for the past two months in Kenya were significant determinants of the current month's VDT. The estimated coefficients of DLOG(EX_RATE(-1)) and DLOG(EX_RATE(-2)) clearly showed

that exchange rate of Kenya significantly reduced VDT over the last two months. The positive and statistically significant coefficients of D(CBR) and D(INFLR) indicates that changes in the central bank rate and inflation on VDT within a short period were positive and instantaneous. The coefficient of DLOG(CROIP(-1)) implied that the changes in crude oil price with a month caused VDT to accelerate significantly. The coefficient of DLOG(CRATE(-1)) indicates that the status of credit rating in Kenya a month ago caused a significant reduction in VDT in Kenya.

Test of Hypothesis

The test of hypotheses was based on the 5% significance test for the long-run estimates (see Table 4). According to Gujarati (2004), the decision rule for hypothesis testing is as follows:

1. Accept null hypothesis if p-value is greater than 0.05; and,
2. Reject null hypothesis if p-value is less than 0.05.

Table 4 summarized the test of hypothesis.

Ho: Traditional cross border investment vehicles do not have significant effect on stock market returns in Nigeria and Kenya

With probability values of 0.0041, 0.0110 and 0.0147 associated with exchange rate, monetary policy rate and inflation respectively, a statistically significant effect was confirmed while the null hypothesis was accepted for crude oil price and credit rating since their respective probability values of 0.3800 and 0.9886 were greater than 0.05. This shows that exchange rate, monetary policy rate and inflation were the most significant traditional cross border investment vehicles affecting stock market returns in Nigeria.

For Kenya, the probability values0.2547, 0.5008 and 0.4847 associated with the exchange rate, central bank rate and credit rating were lesser than 0.05, indicating that they were non-significant in affecting the stock market returns. On the other hand, the probability values of 0.0001 and 0.0000 associated with crude oil price and inflation were lesser than 0.05. It the indicates that the changes in crude oil price and inflation were the most significant traditional cross border investment vehicles affecting stock market returns in Kenya.

Discussion of Results

Generally, the results of the ARDL estimation shows that the traditional cross border investment vehicles have a time-varying effects on the Nigerian and Kenyan capital market irrespective of the variable used to measure capital market performance. This is based on the divergent results obtained for the long-run and error correction model estimates. Also, the model summary as indicated by the Adjusted R-squared and F-statistics of the models indicate that traditional cross border investment vehicles collectively affect capital market performance in Nigeria and Kenya.

In Nigeria and Kenya, all the components of capital market performance responded negatively to the changes in exchange rate except for the VDT in Kenya. This then implies that the Nigerian capital market was more vulnerable to exchange rate dynamics than Kenya. In the short run, however, exchange rate happened to be largely negative for Nigeria but positive for Kenya in many cases, imply that exchange rate shocks hit the Nigerian capital market the most. This could be attributed to the fact that the countries, especially Nigeria rely the importation of capital goods which then increases the cost of production due to the incessant depreciation of the domestic currency which must have discouraged foreigners from investing in the domestic markets. Findings from this study is in tandem with those of Adebiyi and Abeng (2019); Muigai and Chereno (2019); Iqbal and Haider (2015); Okoli (2012); Joseph (2012) while studies such as Izunobi, Nzotta, Ugwuanyim and Ozurumba

(2019); Fapetu and Adeyeye (2017) did not support the findings of this study. The divergence in the research outcome could be attributed to the fact that the exchange rate is often dynamic and different countries, overtime, have embraced varying exchange rate regimes in their quest for financial stability.

In the case of monetary policy rate (MPR), the long-run results showed an adverse trend in capital market performance components except for ETF in Nigeria. The central bank rate (CBR) was generally observed to be positive for Kenya except for the VDT where it had a negative trend. This clearly implies that the Kenyan central bank might have been more prudent in its monetary policy than Nigeria. In the short-run, the MPR and CBR turned out with time-varying effects on the capital market performance indicators because policymakers would usually adjust monetary decisions based on economic situations at different times. However, a rise in MPR/CBR would trigger high lending rates which would eventually cause higher inflation rate and distort capital market activities in a country with high policy rate. These assertions are in consonance with Thuo (2019); Meshack and Nyamute (2016); Naoyuki, Farhad, Ali and Ahmad (2014); Aliyu (2012) but against those of Anyamaobi (2018); Okumu (2017); Akani, Okpnkwo and Ibenta (2016) who found increasing stock market performance amidst upward review of MPR/CBR.

As observed from the long-run estimates, inflation rate (INFLR) largely caused positive trends in the components of capital market performance for Nigeria except in the case of ETF where a negative effect was felt. In the Kenyan capital market, inflation rate had a negative effect on three of the capital market indicators but turned positive for the VDT. This shows that the Kenyan market indices were unable to withstand inflationary pressure in the long-run but its derivative market was able to cushion the effects of inflation in the long-run while the Nigerian case shows that though the market indices seemed to have withstood the undesirable effects of inflation its derivative market could not absorb it. This clearly reveals that the Kenya derivative market has been more prominent in curtailing the effects of inflation more than its Nigerian counterpart. This could also lend credence to the assertion that a high rate of inflation reduces the purchasing power of money and thus increases the cost of transactions in an inflationary prone financial market. In the short run, however, the effect of inflation was largely negative across the models. The studies that lend credence to this finding are Mtuweta (2018); Orajaka and Okeke (2017); Babu (2017); Mogire (2016) while Iorember, Sokpo and Usar (2017); Omotor (2010) found inflation to be less significant.

Regarding the crude oil price (CROIP), it was found that CROIP negatively affected MCAP and ETF in Nigeria probably because the Nigerian system is dominated by transactions in the oil sector. In Kenya, the CROIP largely exerted negative influence on the ASI, MCAP and SMR but had a positive influence on the VDT probably since the Kenya derivative market is not dominated by oil. This showed that Nigeria being a monocultural economy that is largely reliant on crude oil is more exposed to oil price dynamics and its derivative market offers little to cushion this effect unlike the Kenyan capital market where the derivative market played a key role in cushioning the effect of oil price swings in the long run. In the short run, the effect of CROIP was incessantly dynamic with the passage of time. This is in line with the findings of Olayungbo (2020); Agbo and Nwankwo (2019); Kumeka, Adeniyi and Orekoya (2018); Kinyanjui (2018); Gourène and Mendy (2018); Asaolu and Ilo (2012) while Alimi and Joseph (2021); Adenekan, Hilili and Okereke (2020); Haji (2017); Gatuhi (2013) found the crude oil price effect to be beneficial for oil producing countries alone.

Conclusions

The study evaluated the influence of traditional cross border investment vehicles on the performance of the Nigerian and Kenyan capital markets. Results from the analysis showed

that exchange rate and monetary policy rate had the greatest effect on the Nigerian capital market performance indices followed by crude oil price and credit rating in the long run. In Kenya, on the other hand, the capital market performance indicators were majorly affected by crude oil price and inflation rate followed by exchange rate and credit rating. Also, the speed of adjustment across the models specified showed that there was an adjustment mechanism from short-run disequilibrium to the long-run, implying that the nexus between the traditional cross border investment vehicles on the performance of the Nigerian and Kenyan capital markets followed a long-run path. Again, the collective effect of traditional cross border investment vehicles on the performance of the Nigerian and Kenyan capital markets was found to be statistically significant as shown by the F-statistics. Consequently, it was concluded that the traditional cross border investment vehicles exerted varying effects on capital market performance in Nigeria and Kenya, they were generally significant in influencing the capital markets.

Recommendations

After the findings that emanated from this study, the following suggestions are offered for attention of concerned authorities:

The effects of crude oil price in Nigeria and Kenya were significant in most of the models. Nigeria being an oil dependent economy, refining of crude oil should be done locally, to conserve foreign exchange, and eliminate importation of refined petroleum products and its attendant general deleterious effect on the economy in terms of imported inflation, high production cost, and pressure on foreign exchange and the consequential decline in capital market performance. For Kenya, it implies that the effect of crude oil price dynamics can be transmitted, hence are expected to build a strong macroeconomic structure that would cushion the effects of crude oil price swings on their economy.

In the long-run, it was observed that the effect of credit rating was significant in affecting capital market performance in the long-run. Hence, the governments should be fiscal responsible by channelling the borrowed funds to investments that will restore the confidence of international community in Nigeria economy and enhance the capital market performance in Nigeria and Kenyan. Also, debts should be taken only when necessary and should be for investments that would strengthen the capital markets' performance.

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