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Orthodox Cross-border Investment Vehicles and Capital Markets Innovations: The Nigerian and Kenyan Experience

Sunday, Daniel Uche, Ph.D
Michael Okpara University of Agriculture, Umudike
Department of Banking and Finance

Ndubueze, Victoria Onyinyechi
College of Business, Technology and Engineering
Sheffield Hallam University, UK

Uche, Chidinma Peace (ACA)
College of Business, Technology and Engineering
Sheffield Hallam University, UK

Abstract

This study assessed how Orthodox (traditional) cross-border investment vehicles affected the performance of the capital markets in Kenya and Nigeria between January 2011 and December 2020. The conventional cross-border investment vehicles were the exchange rate, monetary policy rate (also called the Central Bank rate in Kenya), inflation rate, crude oil price, and credit rating. The derivatives market was used to gauge the performance of the capital markets. To find the partial coefficients of the endogenous variables, an ex post facto research design was employed in a multiple regression analysis framework. First, diagnostic tests were conducted using the Augmented Dickey-Fuller technique, which involved pretesting the data for unit root. The series' degree and sequence of integration were then established. According to the test, the data series had mixed integration, which made the Autoregressive Distributed Lag (ARDL) model necessary. According to the results of the ARDL boundaries test, there was a long-term association between the impact of traditional cross-border investment vehicles and the performance of the capital markets in Kenya and Nigeria. According to long-term projections, traditional cross-border investment vehicles have different effects on the performance of the capital markets in Kenya and Nigeria. In particular, the long-term projections indicated that the exchange rate and monetary policy dynamics had a greater impact on the Nigerian capital market than on the Kenyan one. However, the 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. When it came to credit rating, the Nigerian capital market was severely impacted, but the Kenyan capital market appeared to be less affected. After a relatively brief shock, it was found that all the error correction models automatically adjusted to equilibrium. Conventional cross-border investment vehicles also showed time-varying effects at various lag lengths, according to the error correction models.

Keywords: Orthodox/Traditional cross-border investment, investment vehicles, capital markets, derivatives market.

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Background to the Study

Cross border investments cut across sectors and activities but are usually seen in Mergers and Acquisition, Finance and Banking and Securities market. Cross border Mergers and Acquisition implies the purchase of a holding right in a non-resident company. Though cross-border mergers and acquisitions represent a small percentage of all mergers and acquisitions, they are large and a growing part of all direct foreign investment (Hopkins 1999). According to Sonenshine and Reynolds (2014), a multinational may choose to engage in cross-border mergers to domesticate an activity aimed at avoiding the disadvantages of working through a foreign firm. They further opined that, cross-border mergers can enable firms obtain resources from local firms, such as its knowledge base, technology, and human resources, as well as gain access to markets and to key constituencies at the local level. Sonenshine and Reynolds (2014), further highlighted that, companies choose to engage in cross-border mergers for a variety of reasons including improved market access, cost advantages (e.g., lower labour costs and/or lower trade barriers), and regulatory, corporate, or tax differences. At times there may be multiple explanations for cross-border mergers depending on the industry, time, and location of the acquiring company.

Cross Border Securities is otherwise known as foreign portfolio investment, it entails investment in foreign shares, bonds and other securities. Daude and Fratzscher (2008) have shown that cross-border direct investment is substantially more sensitive to information frictions than investment in portfolio equity and debt securities. In recent development, Securities have replaced bank lending as the primary means through which funds are invested internationally. The capital markets are flooded with a myriad of innovative technology solutions aimed to improve business and process transactions. Financial market infrastructures remain fundamental to any market development. Some factors fuelling successful links in cross border securities are harmonised standard market practice, coordinated connectivity, user groups and rigorous community and stakeholder engagement at every stage of the initiative from its onset through to service launch.

Consequently, cross border investment in emerging markets like India, Nigeria and Ghana hold a great role in global development. This is seen in the transfer of money, shares, power and culture. These make their positions and net-worth stronger at global arena. For instance, Cross border investment in India starting from a baseline of less than USD 1 billion in 1990, a recent UNCTAD survey projected India as the second most important cross border investment destination (after China) for transnational corporations during 2010-2012. Cross border investment inflow into India was at an all-time high of $ 7.78 billion up 77% from $ 4.4 billion (UNCTAD 2012).

Conversely, cross-border investment vehicles serve as the catalysts, instruments, and promoters of cross-border investment. They serve as the channel for facilitating foreign investments. The primary factors influencing cross-border investments in developing nations, according to literature (Hooda, 2009; Faroh and Shen, 2015), include inflation, exchange rates, labor costs, corporation taxation, stable political environments, and infrastructure. Exchange rates, interest rates, inflation, credit ratings, output, GDP, and crude oil prices are examples of well-known investment vehicles (Lien and Zhang, 2008). A foreign investor's perception of his potential host nation is reflected in these international investment vehicles. The numbers and levels of these factors show whether a nation's economic status is not favorable and sustainable.

The price at which one nation's currency can be swapped for another is known as the exchange rate. Since an exchange rate is necessary to draw in foreign direct investment, an

excessively high exchange rate will deter exporting and have a negative impact on foreign direct investment. In the literature, the topic of exchange rates has been discussed frequently. According to some, the exchange rate is a crucial relative price in the economy. This is since fluctuations in the real exchange rate have an impact on domestic prices, the balance of payments, the amount and composition of output, consumption, and employment, as well as the distribution of resources within the economy (Kiguel, 1992). The exchange rate is seen to be a key channel for transferring trade shocks to current account fluctuations (Osinubi & Amaghionyeodiwe, 2005).

The percentage of principal paid over the course of the loan term at a specific interval is known as the interest rate. The rate at which the Apex bank loans to the commercial banks for on-lending activities is the derivative of the Monetary Policy rates in Nigeria. From a more general standpoint, Monogbe and Okah (2017) believed that high interest rates on loanable funds raise the cost of capital, which always deters investors from raising their capital and, as a result, deters foreign investment.

The pace of steady increase in the average cost of goods and services is known as the inflation rate. Too much money chasing too little goods is what inflation is all about. The economic and institutional ramifications of inflation are gaining attention, primarily due to their consequences for monetary policy. Since they demonstrate the stability of the cost of goods and services in these nations, low inflation and global competitiveness have emerged as desirable goals in many of them. Central banks all over the world maintain low rates of inflation by implementing a purposeful monetary policy stance that aims to stabilize domestic prices and promote economic expansion.

According to the terms of the loan agreement, the borrower's credit rating—whether it be an individual, group, or business—determines whether the borrower will be able to repay the loan on schedule. Because it encourages investment decisions, safety assurance, payback schedules, quick loan approval, and reasonable interest rates, credit rating is very significant to both the borrower and the lender. Financial sector ratings, issuer ratings, infrastructure sector ratings, insurance sector ratings, mutual fund ratings, public finance ratings, project finance ratings, structured finance ratings, bank loan credit ratings, corporate debt ratings, corporate governance ratings, and SME ratings are all examples of credit ratings.

In Nigeria, a credit rating is used by Sovereign Wealth Funds, pension funds and other investors to measure the credit quality of individuals thereby having a huge impact on the country's borrowing rates. By establishing a framework for credit reporting, credit bureau licensing, and regulation, FGN passed the Credit Reporting Act 2017 to increase credit availability. The act guarantees that credit providers can obtain accurate and trustworthy credit data about potential borrowers. To achieve this, it establishes guidelines and requirements for the creation and functioning of credit-rating organizations. This law will make it possible for lenders to consider a borrower's credit history before deciding who gets credit. Additionally, it will increase financial institutions' readiness to provide credit facilities to more businesses that require them. Nigeria's credit worthiness has also been graded by several rating agencies on the global stage. For example, Standard & Poor's has given Nigeria a stable outlook and a B-credit rating as of March 26, 2020. In December 2019, Moody's last assigned Nigeria a B2 credit rating with a negative outlook. In April 2020, Fitch last reported Nigeria's credit rating at B with a negative outlook (Trading Economics, 2020).

Gross Domestic Product serves as a lens through which investors see the robustness or leanness of any economy. It is the total worth of all goods and services generated within the

country at a certain time, usually one year. The GDP of Nigeria and Kenya as of January 2021, stood at $466.88 billion and $ 105.65 correspondingly. This illustrates how prosperous the economies were prior to the devastating impact of the worldwide pandemic. GDP is anticipated to rise in tandem with the government's improved economic policies. Foreign investors will be enticed by this and will have high expectations for their return on investment.

Any nation's infrastructure development is essential to drawing in foreign investment. Potential investors will not be drawn to physical infrastructure in a condition of disrepair. Determining a nation's ideal level of infrastructure investment would be simple if commodities prices were fixed and political restrictions did not exist. To reduce the costs associated with investment adjustment, infrastructure investment should grow gradually over time. Implementing an investment plan that grows gradually and smoothly over time becomes considerably more difficult if a nation's income is derived from a commodity whose price fluctuates greatly (Devlin & Titman, 2004).
In Kenya, businesses and the government have made steps to enhance the country's economic outlook, which is a surefire way to attract foreign investment. Kenya's capital market was named East Africa's best-performing capital market in 2019. This is a positive start in luring in foreign investment, whether it be direct or in the form of a portfolio. According to reports, Kenya's financial sector was rated as the third most desirable in Africa, behind Botswana and South Africa (CMA, 2019). Market depth, access to foreign exchange, market transparency, the tax and regulatory environment, macroeconomic opportunity, and the enforcement and validity of standard financial markets master agreements are the six main categories in which the research evaluated development and potential. The report concludes by identifying two primary factors that contributed to Kenya's favourable performance: the country's openness regarding foreign exchange access and its robust legal and enforcement frameworks that support financial agreements to offer alluring opportunities to foreign investors and successful trading of derivatives single stock futures at the Nairobi Securities Exchange (NEXT).

On the domestic front, 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 better road and electricity infrastructure, credit availability, exchange rate accessibility, and market accessibility will all improve the business climate in Nigeria. The Nigerian Capital Market master plan (2015-2025), which was introduced in June 2015 to spur creative endeavors and signal the beginning of a period of strong capital market growth, is noteworthy. As recommended by the International Organization of Securities Commissions (IOCSCO), this is anticipated to stimulate capital market activity in accordance with global best practices.

The general expansion and improvement of the long-term fund market is known as capital market performance. This performance encompasses a variety of factors, including profitability, global visibility, transaction volume, new products, and market information accessibility. As was covered in the study's earlier paragraphs, it is critical to understand that traditional investment vehicles in any nation are essential to improving the capital market's performance. Since capital market development is a tried-and-true formula for economic growth, its importance cannot be overstated.
Cross-border investment studies have become essential in the current climate of financial integration in Africa and other areas of the world to chart a new course for the continent's developing financial markets (money and capital). Considering this, the purpose of this study was to assess how traditional cross-border investment vehicles affected the capital market

performance of Kenya and Nigeria, two countries that are part of the frontline economies in East and West Africa, respectively.

Statement of the Problem

Sub-Saharan Africa received less attention in cross-border investment research than the developed economies of America and Europe (Mathieu et al., 2019). As a result, the area has been relatively underdeveloped, under tapped, and undiscovered. The primary drivers of cross-border investments, such as single-digit interest rates, low inflation, stable exchange rates, full employment, infrastructure development, improved credit ratings, and political stability, have not been consistently improved by African leaders. Additionally, despite the corrupt practices that have plagued the continent in recent decades, the desire to transfer African assets overseas has kept the interest in attracting international investment from gaining much attention. In addition to making doing business more expensive, a significant degree of corruption is likely to make the issue of information asymmetry worse. As a result, capital market development and operations have been changing globally. Sub-Saharan African nations have seen varied assimilation rates because of policy reversals, differences in exchange rate regimes, and unfavourable investment climates. According to studies, a favourable investment climate fosters an economy's robust growth and profitability (Uremadu and Sunday, 2016).

The global financial crisis of 2008 and the economic recession that lasted from the second quarter of 2016 to the final quarter of 2017 are the two most significant recent setbacks to the Nigerian capital market. Based on data from the Central Bank of Nigeria and National Bureau of Statistics reports (2016), the Nigerian economy entered a recession after surviving the 2008 global financial crisis. This was demonstrated by several factors, including economic distress and contraction, a volatile exchange rate, high inflation, unemployment, a low GDP growth rate, and more (Agri, Mailafia & Umejiaku, 2017; Onyele, Opara & Ikwuagwu, 2017). Therefore, it is thought that the multiplier effect of the current economic slump may be the cause of the troubled Nigerian stock market. Therefore, it seems that Nigeria has disproved the traditional adage that the capital market is a growth engine.

Following Nigeria's recession, there has been significant economic instability in recent years. The inflation rate increased from 12.0% in 2015 to 18.0% in 2016, the average official exchange rate (Naira/Dollar) further depreciated from 196.50 to 304.50 per dollar, and all share indexes fell from 28,642.3 to 26,874.6. Additionally, overall economic activity has drastically contracted (CBN, 2018). Therefore, it can be concluded that the Nigerian stock market must have suffered because of the noted changes in economic variables. The economic recession in Nigeria is not the first of its sort, but it is particularly concerning because it is occurring against the backdrop of macroeconomic difficulties such as low investment and high macroeconomic instability. Based on the circumstances described above, it is therefore desirable to conduct an evaluation of the impact that these cross-border investment vehicles are having on the capital market in Nigeria and Kenya. Recent research on capital market development, including Ohaeri (2017), SEC (2015), Fiador and Asere (2012), and Okereke-Onyiuke (2000), has promoted cross-border finance, mergers, acquisitions, and portfolio investments. Since no study in the literature has examined Exchange Traded Funds (ETF) as a factor in cross-border investment between Nigeria and Kenya, this will contribute to the innovation and new developments in capital market research.

Research Question

The following research question has been formulated to guide the study.

1. What effect does Traditional Cross Border Investment Vehicles have on Market innovation in the capital markets of Nigeria ad Kenya?

Research Hypothesis

With respect to the research question raised, the following hypothesis was formulated and tested:

1. There is no significance difference between Traditional Cross Border Investment Vehicles and Market innovation in the capital markets in Nigeria and Kenya

Literature Review

Conceptual Framework

Meaning of Cross Border Investment:

Cross Border Investment is the acquisition of lasting interest in an enterprise in another country. The lasting interest can be evidenced when "the direct investor owns at least 10% of the voting power of the direct investment enterprise" (OECD, 2008). It is important to note that the objectives of direct investment are different from those of portfolio investment, whereby investors do not generally expect to influence the management of the enterprise in the host country.

By direct investment enterprises, the OECD (2008,) understands "corporations, which may either be subsidiaries, in which over 50% of the voting power is held, or associates, in which between 10% and 50% of the voting power is held, or they may be quasi-corporations such as branches which are effectively 100% owned by their respective parents."

Theoretical Framework

Investment Diversion theory

This theory was propounded by an American economist, Charles Kindleberger in 1966. It postulates that due to the macroeconomic and political uncertainty in developing countries and the simultaneous existence of better investment opportunities in advanced countries such as high foreign interest rate, wide array of financial instruments, political and economic stability, favourable tax climate and secrecy of accounts, some unscrupulous and corrupt leaders and bureaucrats usually siphon scarce capital resources from their countries to advanced countries. These funds are therefore, not available for investment at home leading to decline in aggregate investment, low economic growth, hence declining employment, increase dependency ratio and high death rate. These negative macroeconomic effects on these countries sometimes motivate the necessity to borrow from abroad to reactivate the domestic economy, which is sometimes further siphoned thereby perpetrating external dependency and indebtedness. The liquidity constraint or crowding-out effect may result to depreciation of the local currency, if the authorities are operating a floating exchange rate regime (Ajayi, 1992). An attempt to defend the external exchange rate at this time may lead to loss of international reserves (Pastor, 1989). The investment diversion thesis provides one of the well-known negative consequences of capital flight in the countries involved

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

Inimino, Bosco and Abuo (2018) explicitly examined capital market and economic growth in Nigeria from 1986 to 2016 using the Augmented Dickey-Fuller test and Autoregressive Distributed Lag model as analytical tools. The ADF unit test results revealed stationarity of the variables at order zero and one, which satisfied the requirement to employ the ARDL Bounds testing approach. The ARDL Bounds test revealed the existence of long run relationship among the variables. Moreover, the results revealed that market capitalization had positive and significant effects on economic growth both in the short and long run. Number of deals also had a positive and significant effect on economic growth in the long run but negative and insignificant effect on economic growth in the short run, while the volume of transaction had negative and significant effect on economic growth in both the long run and the short run.

Kimeli (2017) studied IFRS adoption and capital markets. Through a review of relevant literature. The study which centred on IFRS adoption effects on the functioning and operations of capital markets, opined that enhanced liquidity of markets and minimized information asymmetry improved foreign holdings and turnover of capital markets.

Similarly, Odo, Anoke, Onyeisi and Chukwu (2017) investigated the impact of capital market on economic growth in Nigeria from 1986 to 2016. They employed Auto Regressive Distributed Lag bound testing and VAR Granger causality econometric tools of estimation to test the variables in the model. The result of the estimation revealed a stable long run association between the explained and explanatory variables as supported by the greater bound value of 10.58. The finding of the ARDL revealed that market capitalization has positive significant association with economic growth; also, stock traded total value indicated a negative insignificant link with economic growth, all in the short run.

Muritala and Ogunji (2017) critically studied the association between the capital market and economic growth in Nigeria (1980-2015). Unit root, Co-integration and ECM methods of econometrics were employed. The finding showed that total new issue, market capitalization, and total listing positively impact on the economy. Meanwhile, the value of the transaction has impacted on real gross domestic product negatively.

Monogbe, Nduka and Onwuka (2017) amplified the behavioural effect of multination operations and its performance on the Nigeria economy between the periods 1986 to 2014. Study employed error correction model and impulse response method among others. Report shows that the operation of the multinational firm has significantly contribute to the growth of the Nigerian economy thought the contributive quadrant is minuet and as such the mangers of the Nigerian economy should put in place strategies that will attract foreign investors to ensure more inflows of foreign capital in the country

Taiwo, Alaka and Afieroho (2016) evaluated the relationship between capital market and economic Growth in Nigeria using Vector Error Correction techniques on an annual time series data spanning from 1981 to 2014. The results of the normalized cointegrated series revealed that market capitalization rate, total value of listed securities, labour force participation rate, accumulated savings and capital formation are significant macroeconomic determinants factors of economic growth in Nigeria.

Yusuf and Aminu (2016) studied the impact of capital market on economic growth in Nigeria from 2005 to 2014. OLS econometrics technique was employed as the main analytical

technique. The findings suggested that capital market performance indicators impacted insignificantly on GDP.

Obiakor (2016) used OLS techniques to examine capital market and economic growth in Nigeria from 1985 to 2015. Analysis was anchored on relevant manifold regression model whose coefficients were estimated via the ordinary least squares (OLS) techniques. Results revealed that in specifics, market indices had heterogeneous effects on growth of the economy but on aggregate, capital market development significantly induced growth of the economy.

Yusuf & Aminu (2016) studied the impact of the capital market on economic growth in Nigeria from 2005 to 2014. OLS econometrics technique was employed as the main analytical technique. The findings suggested that capital market performance affected insignificantly GDP.

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Duke &Nkamare (2015) investigated capital market and economic growth in Nigeria from 1986 to 2005 using OLS estimation technique. The finding suggested that there was a direct perfect association among the variables. The result also showed that none of the variables individually predicted GDP.

Okpoto (2015) studied the impact of the capital market on economic growth in Nigeria for the period 1980 to 2013. The researcher applied the ADF, co-integration, and the Error Correction Mechanism technique. The unit root test results showed that the variables were stationary at various levels. The result revealed that the variables were cointegrated.

Okicic (2015) investigated the behaviour of stock returns of Central and Eastern Europe (CEE) stock markets with emphasis on the association between conditional volatility and stock returns. Findings of the study provide confirmatory evidence that ARIMA and GARCH processes provide parsimonious approximations of mean and volatility dynamics in the case of CEE stock markets. There is overwhelming confirmation corroborating the presence of a leverage effect, it means that the number of negative shocks escalate volatility more as compared to the positive shocks do.

Chen (2015), who analysed the Chinese market, and concluded a positive and statistically significant risk return in SSE stocks, further revealed that conditional mean of equity return is inversely related to the conditional variance in SSE stocks. The evaluation of the impact of the financial crisis revealed that there was a positive impact on volatility of stock returns in case of Japanese, Chinese and Indian stock markets, however, in case of Hong Kong equity market, it had no impact on the volatility (Singhania &Anchalia, 2013).

Abu & Aguda (2015) examined the Nigerian capital market as a catalyst for sustainable economic development. The study revealed that the Nigerian capital market is significant to economic development as the value of transactions traded on the Nigerian Stock Exchange affects gross domestic product positively.

Nosakhare and Samson (2015) analyzed the impact of capital market development on economic growth in Nigeria using the Vector Error Correction (VEC) granger causality and the Vector Error Correction Mechanism (VECM) were analyzed between the periods of 1981 to 2013. The VEC causality test indicated a bidirectional causality between economic growth and capital market development in Nigeria. The Forecast Error Variance Decomposition further indicated that the predominant variations in the innovations of the variables are the shocks of themselves relative to shocks in all other variables in the VEC Model. The VEC estimation revealed that the speed of adjustment of the market relative to the economy is slow and unimpressive, considering the speed of turnover ratio and market liquidity and the ability of the market to respond to the unexpected changes are weak.

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Briggs (2015) empirically examined the impact of the capital market on the Nigeria economy from 1981-2011. The study used Gross Domestic product (GDP) as proxy for economic growth while the capital market variables considered were Market capitalization (MCAP), total new issues (TNI), value of transactions (VLT), and total Listed Equities and government stocks (LEGS). Johansen co-integration and Granger causality tests were applied. The result showed the clear relative positive impact the capital market plays on the economic growth and invariably on the economy.

Raza et al. (2015) have applied several GARCH family models for the valuation and foreseeing the volatility of KSE100 Index stock returns. Eleven years daily closing prices starting from 3rd of June 2002 to 31st of May 2013, total number of 2724 observations of KSE100 index have been selected and analysed. To model the conditional mean equation for KSE100 index stock returns, they have used ARMA specifications.

International Oil Price (Crude Oil) and Capital Market Performance

In a country-specific study, Tursoy and Faisal (2018) used the ARDL bounds cointegration, fully modified ordinary least square, and the dynamic ordinary least square to examine whether a long-run and short-run relationship exist amongst stock prices, gold prices and crude oil price for Turkey. The study used monthly time series data from January 1986 to November 2016. The empirical evidence showed a negative relationship between stock and oil variables in both short-run and long-run. The result of the Granger causality test indicates a short-run and long-run unidirectional joint causation from gold prices to stock prices. This

implies that oil price volatility does not Granger causes stock prices; neither does the reverse hold for Turkey.

In a panel analysis, Ji et al. (2018) explored the dynamic relationship and risk spill over between BRICS stock returns and oil shocks, using the combination of the Structural VAR model and time-varying copula-GARCH-based CoVaR approach. The empirical results revealed that the dependence between BRICS stock returns and oil shocks was unstable and dependent on the nature of the stock market. Essentially, the shape of the CoVaRs in each country is comparatively different, depending on its unique market situation and domestic policies. There is significant risk spillover from oil-specific demand shock to stock returns in all the BRICS countries. In Brazil, Russia and India, there is a significant asymmetric effect between upside and downside risk spillovers based on oil aggregate demand-shock and oil-specific demand shock

Al-hajj et al. (2018) studied how fluctuations in oil price, interest rate, exchange rate, industrial production, and inflation impact on the stock market returns for Malaysia. The study employs the non-linear autoregressive distributed lag (NARDL) to analyze monthly data covering the period between January 1990 to November 2016 and from May 2000 to November 2016 for the aggregate market and the nine sectors, respectively. The ARDL bounds test result indicates the existence of a long run cointegrating relationship. In specific terms, oil price shocks negatively affect the stock market returns. The result shows that the Malaysian stock market is susceptible to crude oil price depreciation and appreciation

Xiao et al. (2018) examined the effects of oil price uncertainty on the aggregate and sectoral stock returns in China. The study, which employs the quantile regression approach, and found that oil price volatility exerts significant adverse effects on the total and sectoral stock returns when the market is bearish. This sharply depart from earlier findings of Zhu et al. (2016) for China which found a significant positive effect of crude oil price on industrial sector stocks returns using the quantile regression approach. In a more recent investigation

Ding et al. (2017) examine the contagion effect of global oil price volatility on the investor's sentiment in China using the structural vector auto regression approach. The empirical evidence shows that world crude oil price fluctuations significantly Granger caused Chinese stock market investor sentiment in both the short-run and long-run. On a micro level

Kang et al. (2017) investigate the impacts of oil price shocks on the stock returns of oil and gas companies using the vector auto regression model. The empirical result suggests that an oil demand-side shock has a positive effect on the performance of oil and gas companies, while shocks to policy uncertainty impacts negatively on stock returns. The variance decomposition shows that the endogenous policy uncertainty responses propel the impact of oil shocks on the stock return. Lending credence to the oil price and stock markets interdependence

Huang et al. (2017) explored the dynamic relations between the oil price volatility, and stock market returns to determine whether oil price could exert asymmetric effects on the stock market. The study used the wavelet analysis and vector autoregression approaches and affirms that for each time horizon, oil price fluctuations have a significant impact on the stock returns. Also, the result documented that the stock market has a backward linkage to the oil price. Further evidence supports the position that response amplitude of the stock market to changes in the oil price increases as the time horizon lengthens with varying response direction across different time horizons

Luo and Qin (2017) studied the effects of oil price shocks and oil price volatility shocks on the Chinese stock market index and five sector returns. The study employed the wavelet and autoregression approaches and documents that oil price shocks positively affect Chinese stock returns. More importantly, evidence indicated that the oil price volatility shocks have significant and adverse effects on the Chinese stock market while the impact of realized volatility shocks is negligible, especially after the recent financial crisis.

In Nigeria, Soyemi, Akingunola and Ogebe (2017) applying the three-stage least squares technique on data series between 2007 and 2014, the results of the study revealed that oil shocks have a significant positive effect on company stock returns in Nigeria

Ojikutu, Onolemhemhen, and Isehunwa (2017), examined the impact of falling oil prices on stock market and exchange rates, using the ordinary least square estimation technique, they adopted the basic variables of all share index (ASI) which serves as a proxy for market performance, Crude Oil Price and Exchange Rate. Annual time series data covering the period of 1985-2014 was used to estimate the model using regression analysis. from the result, there exists one co-integrating relationship among ASI, COP, and EXR. Variation in stock market performance can be explained by COPs and EXR.

Exchange Rate and Capital Market Performance

Yousaf, Shahzadi, Kanwal and Hassan, (2013) examined the "influence of exchange rate movement on Foreign Direct Investment in Pakistan." between the periods of 1980 to 2011. Their study used ordinary least square regression (OLS) model along with diagnostic analysis. They established that exchange rate shocks and inflation rate avert Foreign Direct Investment while a positive correlation exists between exchange rate and FDI

Udoh and Egwaikhide (2008) investigate the impact of exchange rate volatility and inflation certainty on Foreign Direct Investment in Nigeria, between the periods of 1970 to 2005. Adopting the Generalized Autoregressive Conditional Heteroskedastic (GARCH) estimation model. They concluded that exchange rate uncertainty has a negative impact on foreign direct investment inflows in Nigeria.

Adjasi and Biekpe (2005) showed that in the long-run exchange rate depreciation leads to increases in stock market prices in some of the countries, and in the short-run, exchange rate depreciations reduce stock market returns. Fang and Fu (2008) showed the possibility of a very weak or no relationship between stock prices volatility and exchange rates movement.

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.

Patra and Poshakwale (2006) used the error correction model (ECM) to conduct a study on the impact of economic variables on market returns in Greece from 1990 to 1999. Empirical results show that some macroeconomic variable like money supply, inflation, volume of trade and exchange have both short-run and long-run relationship with a stock price in equilibrium in Greece while there was no short-run or long run relationship noticed between exchange

rate and stock prices. Fama (1981) documents evidence of a negative relation between realized inflation and economic activity (the stagflation scenario) in the past twenty years. Since stock returns are shown to be related to future economic activity, the negative relation between stock return and inflation is the expression of a more general phenomenon. Fama (1981) indicated further that, the inclusion of money growth in the regression makes the expected inflation insignificant which might be interpreted as replacing one inflationary expectation proxy by another; furthermore, the unchanged in expectations stays significant (except in one case)

Oraka., Ezejiofor, & Erhirhie., (2018) examined the effects of inflation on the performance of Nigerian capital market since democratic dispensation. Using SPSS version 20.0, the study found that there is a negative correlation between inflation rate and all share index in Nigerian and there is a negative significant correlation between inflation rate and Nigerian market capitalization. Also, the level of inflation rate has a negative correlation with the value of domestic share traded in Nigeria. This means that inflation is responsible for inefficiencies and non-performance of capital market. the study recommended that all factors which cause an increase in the general price levels in the capital market such increase in all shares should be addressed with the appropriate policies so as to foster market stability

Omoke and Ugwuanyi (2010) tested the relationship between money, inflation and output by employing cointegration and Granger-causality test analysis. The findings revealed no existence of a cointegrating vector in the series used. Money supply was seen to Granger because both output and inflation. The result suggest that monetary stability can contribute towards price stability in Nigerian economy since the variation in price level is mainly caused by money supply and conclude that inflation in Nigeria is too much extent a monetary phenomenon

Interest Rate and Capital Market Performance

Moya-martinez, Ferrer-Lapena and Escribano-Sotos (2015) examined the relationship between changes in interest rates and the Spanish stock market at the industry level over the period ranging from January 1993 to December 2012 using a wavelet-based approach. The results of the study indicated that Spanish industries exhibited significant interest rate sensitivity; interest rate affected their stock prices. Stocks of regulated industries such as Utilities, highly indebted industries such as Real Estate, Technology, Telecommunications and Banking industry emerge as the most vulnerable to interest rates.

Okyere, Fosu and Boakye (2014) used the Granger Causality test to ascertain the sensitivity of interest rate to stock returns and reported a statistical significance between interest rate sensitivity to stock returns. This outcome was supported by the study of Khalid (2012) that also reported a significant impact of interest rate sensitivity on stock return for different countries.

Ali (2014) assessed the impact of interest rate on Pakistani stock market from January 2004 to December 2013. Correlation and regression analyses were used in the study. The study found that interest rate has a negative impact on stock market. Kamal (2018) studied the impact of treasury bill rate and interest rate on the stock market returns in Egypt between November 2004 and November 2017. The study employed cointegration test, OLS regression and error correction model. The results showed that there is a negative relationship between Treasury bill rate, interest rate, and Egyptian Stock Market returns.

Akpan and Chukwudum (2014) assessed the impact of interest rate changes on the Nigerian stock market for a period covering 1986 to 2011. The study used data obtained from Central

Bank of Nigeria (CBN) and Nigeria Stock Exchange (NSE) publications. A bivariate linear regression model was adopted to test for the relationship between All Share Index (ASI) and Interest rate, while a multiple linear regression model was adopted to control for other important variables, namely, inflation rate, unemployment rate and GDP. The results revealed that interest rate is not significant when other variables affecting stock prices are controlled

Muktadir-Al-Mukit (2013) examined the effects of interest rates on stock market performance in Bangladesh by using monthly time series data over the period of 1991 to 2012. By employing Cointegration test, the study revealed a stable and significant long-run relationship between the variables. The estimated error correction coefficient indicated that 0.12 percent deviation of stock returns are corrected in the short run. Impulse response function of the study also affirmed the negative relationship between the variables. The result of Variance decompositions suggested that about 99.57 % of the variation in stock market returns is attributable to its own shock which implies that stock market returns are largely independent of the other variables in the system. The results of Granger causality analysis suggested the existence of a unidirectional causality from interest rate to market index.

Macroeconomic variables and Capital Market Performance

Again, Okoro (2017) investigated the effect of selected macroeconomic factors on stock market performance in Nigeria as represented by Nigeria Stock Exchange. The study used five macroeconomic factors or variables including Gross Domestic Product, Money Supply, Interest rate, Inflation rate and exchange rate as explanatory variables while stock market performance obtained by converting All Share Index to stock returns was used as the dependent variable. The data for the study were obtained from CBN Statistical Bulletin, 2015 edition for the period spanning 1986 to 2015. The Ordinary Least Square regression technique was employed for data analysis. The results indicated that a combination of Gross Domestic Products, money supply, interest rate, inflation rate and exchange rate could not be used to predict performance of the stock market in Nigeria. The study recommended that firms should focus on improving their profitability to attract more investors.

In another study, Bayar (2016) investigated major macroeconomic determinants of stock market development in Turkey during the period 2005: Q1-2015:Q3 using ARDL cointegration, Toda and Yamamoto (1995) causality test and regression analysis. It was found that both economic growth and stock market liquidity had positive impact on stock market development in the long run, while inflation had negative impact on stock market development in the long run.

In Pakistan, Kabeer, Iqbal, Najaf & Najaf (2016), examined the impact of selected major variables on stock return of the Pakistani emerging capital market Karachi Stock Exchange. The research displays that capital market is inclined by transform in major economic variables. This study observes impact of three major economic variables i.e. foreign direct investment, foreign exchange rate and inflation at Karachi stock exchange. The monthly data of ten years' practice in this study. To reach the objectives, study used the Ordinary Least Square (OLS) to estimate the correlation and regression model. The Durbin-Watson statistics 1.90 value indication that there were no serial correlations issues in study. And results showed that significant negative impact of inflation and foreign exchange rate and foreign direct investment negative insignificant impact on KSE dependent variable. And overall model good fit by probability of F-statistic which was less than 5%.

Again, Zafar (2013) examined macro-economic determinants of stock market performance in Pakistan using time series data for the period 1988 - 2008. The set of macro-economic

determinants were foreign direct investment as percentage of GDP, real interest rate, domestic credit provided by banking sector and value traded as percentage of GDP, whereas stock market performance was measured by market capitalization as percentage of GDP. Data was analyzed in a quantitatively through regression. Hypothesis testing is used to measure the significance of the study. The paper highlighted the findings, that foreign direct investment and value traded have positive impact on stock market performance. It also highlights that there is a negative relationship between real interest rate and stock market performance, whereas the banking sector development has no significant impact on stock market performance.

Maku and Atanda (2010) examined critically the long-run macroeconomic determinants of stock market performance in Nigeria between 1984 and 2007. The properties of the time series variables were examined using the Augmented Dickey-Fuller (ADF) unit root test, and most of the incorporated variables in the study were found to have a unit root at level. The Augmented Engle-Granger Cointegration test result revealed that the stock market performance in Nigeria was mainly determined by macroeconomic forces in the long-run. However, the empirical analysis showed that the NSE all-share index was more responsive to changes in exchange rate, inflation rate, money supply, and real output. While the entire incorporated macroeconomic variables were found to have simultaneous and significant impact on the Nigerian capital market performance in the long run. The study recommended that investors should pay close attention to exchange rate, inflation, money supply, and economic growth rather than treasury bill rate in the long run in their investment decision.

Using country level data, Aizenman and Kendall (2020) look at the globalization of the VC industry, focusing on cross-border investment. They find that geographic distance, common language and colonial ties all predict higher trade flows between countries.

Dornbusch *et al.* (2000) highlighted that, in general, international capital markets appear volatile, on both the downside and the upside. In the mid-1990s, aggregate private capital flows into five crisis-affected East Asian countries - Indonesia, Korea, Malaysia, Philippines, and Thailand - averaged more than $40 billion per annum, reaching a peak of about $70 billion in 1996. In the second half of 1997, more than $100 billion in bank loans were recalled from these five countries, currencies sharply depreciated, and stock markets collapsed. Just as inflows in the early 1990s and increases in markets prices added to the credit booms in many East Asian countries, outflows in 1997 severely aggravated the East Asia financial crisis. An immense amount of research has attempted to understand the exact causes of the volatility in international capital flows. Dornbusch *et al*. (2000) provided an excellent review. Dodd (2000), Garber (1998), and Kregel (1998) more extensively discussed the specific roles of financial derivatives in international capital flows.

Methodology

Model 1

This model is formulated in line with the study objective which seeks to evaluate the influence of traditional cross border investment vehicle on the performance of the Capital Market in Nigeria and Kenya using Derivatives instruments of both countries to measure the innovative performance as *specified below*

ETF= EXR, INTR, CRDT CROILP, INFL - - - Eqn.1

Where

ETF= Exchange traded fund

$Log(ETF)= \beta_0 + \beta_1 Log(EXCR) + \beta_2 Log(INTR) + \beta_3 Log(CRDT) + \beta_4 Log(CROILP) + \beta_5 Log(INFL) + \varepsilon$ - - - Eqn.2

$Log(VDTransact)= \beta_0 + \beta_1 Log(EXCR) + \beta_2 Log(INTR) + \beta_3 Log(CRDT) + \beta_4 Log(CROILP) + \beta_5 Log(INFL) + \varepsilon$ - - - Eqn.3

Where

VDTransact= Value of Derivatives Transactions in Kenya

Exchange Traded Funds (ETF)

ETF is a new and emerging concept in the Nigerian Capital Market space. An exchange-traded fund (ETF) is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and generally operates with an arbitrage mechanism designed to keep it trading close to its net asset value, although deviations can occasionally occur.

Exchange-traded funds (ETFs) are investment securities that are like mutual funds but trade like stocks. Investors typically buy ETFs to passively track an index, such as the S&P 500, and to invest at a lower cost than many index funds. An ETF is a type of investment security that passively tracks an underlying benchmark index, such as the S&P 500. ETFs are baskets of securities that have multiple stocks, bonds, and other assets, or sometimes even just one asset like gold. This quality makes ETFs like mutual funds, especially index funds. However, unlike mutual funds, ETFs trade like stocks, meaning that investors can buy and sell shares on an exchange.

Volume of shares Traded (VST):

Volume of trade is the total quantity of shares or contracts traded for a specified security. It can be measured on any type of security traded during a trading day. Volume of trade or trade volume is measured on stocks, bonds, options contracts, futures contracts and all types of commodities. Each market exchange tracks its trading volume and provides volume data. The volume of trade numbers is reported as often as once an hour throughout the current trading day. These hourly reported trade volumes are estimates. A trade volume reported at the end of the day is also an estimate. Final actual figures are reported the following day. Investors may also follow a security's tick volume, or the number of changes in a contract's price, as a surrogate for trade volume, since prices tend to change more frequently with a higher volume of trade.

Volume tells investors about the market's activity and liquidity. Higher trade volumes for a specified security mean higher, better order execution and a more active market for connecting a buyer and seller. Volume overall tends to be higher near the market's opening and closing times, and on Mondays and Fridays. It tends to be lower at lunchtime and before a holiday.

ECM for the Nigerian model one

ECM for the Nigerian model one

The empirical results for Nigerian model three are presented in Tab 4.8.The coefficient of lagged error correction mechanism, that is, ECM (-1) is significant at 1%level of significance and is negative as per the *a priori* expectation indicating the speed of adjustment towards long-run equilibrium when the system is exposed to a shock. The magnitude of the ECM implies that approximately 23.8% of the previous month disequilibrium in independent variables was adjusted for in the following month which shows that the adjustment

mechanism was relatively slow. The ARDL results are supportive of the existence of long-run and short-run relationships in the model.

Evaluating the fitness of model 4, the coefficient of multiple determinations Adjusted R-squared of 0.791197 suggests that 79% of the variation in the ETF model was explained by the selected variables in that model, a proof of goodness of fits. In the same vein, F-statistics of 23.42393 shows that the ETF model was well specified and the result maintains good fit.

Table 1: ECM for model one

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(ETF(-1))	-0.836181	0.134812	-6.202559	0.0000***
DLOG(ETF(-2))	-0.146832	0.102532	-1.432059	0.1668
DLOG(EX_RATE)	-0.269774	0.106457	-2.534101	0.0193**
DLOG(EX_RATE(-1))	-0.321654	1.001049	-0.321317	0.7511
D(MPR)	0.683259	0.553675	1.234044	0.2308
D(MPR(-1))	-0.726510	0.100554	-7.225937	0.0000***
D(MPR(-2))	-0.886101	0.124834	-7.098257	0.0000***
D(INFLR)	0.100359	0.199676	0.502611	0.6205
D(INFLR(-1))	0.520102	0.238910	2.176344	0.0411**
D(INFLR(-2))	0.314869	0.140505	2.240985	0.0360**
DLOG(CROIP)	-0.818903	0.994440	-0.823482	0.4195
DLOG(CROIP(-1))	-0.584488	0.106838	-5.470806	0.0000***
DLOG(CROIP(-2))	-0.460427	0.144348	-3.189703	0.0044***
DLOG(CRATE)	-0.498455	0.217481	2.291951	0.0449**
DLOG(CRATE(-1))	0.619121	0.182322	3.395792	0.0017***
DLOG(CRATE(-2))	0.429961	0.206365	2.083495	0.0461**
ECM(-1)	-0.238474	0.031607	-7.544890	0.0000***
R-squared	0.941880			
Adjusted R-squared	0.791197			
F-statistic	23.42393			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	2.441528			

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 coefficient of DLOG(ETF(-1)) indicates that the previous month's exchange traded funds in the Nigerian capital market has a negative and significant relationship with the current month's ETF, indicating that the year trend of ETF is largely considered by the market authority in its decision making every month. With the coefficient of DLOG(EX_RATE) being negative and significant, it was implied that exchange rate has a diminishing impact on the ETF and that the observed impact was immediate. Regarding the coefficient of D(MPR(-1)), it was observed that the monetary policy rate exerted a negative and statistically significant impact on ETF within a period of one month. Looking at the estimated coefficient of D(INFLR(-1)), it was observed that ETF increased amidst increasing inflation rate within one month. The result also showed that within a one-year period, DLOG(CROIP(-1)) negatively and significantly affected ETF in Nigeria. On the other hand, DLOG(CRATE) showed that the Nigerian credit rating instantaneously hindered the growth of ETF in Nigeria.

ECM for the Kenyan model one

The result from the ECM is reported in table 2:

Table 2: ECM for model one

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(VDT(-1))	-0.265625	0.057446	-4.623905	0.0000***
DLOG(VDT(-2))	-0.207096	0.060627	-3.415899	0.0010***
DLOG(EX_RATE)	-1.020906	1.135872	-0.898786	0.3712
DLOG(EX_RATE(-1))	-0.175312	0.056764	-3.088419	0.0027***
DLOG(EX_RATE(-2))	-0.142125	0.053587	-2.652226	0.0095***
D(CBR)	0.149982	0.030697	4.885828	0.0000***
D(INFLR)	0.149982	0.035897	4.178104	0.0001***
DLOG(CROIP)	0.041349	0.105338	0.392541	0.6956
DLOG(CROIP(-1))	0.592081	0.112412	5.267045	0.0000***
DLOG(CROIP(-2))	0.005919	0.119016	0.049737	0.9604
DLOG(CRATE)	-0.011440	0.113607	-0.100701	0.9200
DLOG(CRATE(-1))	-0.377015	0.114865	-3.282231	0.0015***
ECM(-1)	-0.348199	0.058779	-5.923869	0.0000***
R-squared	0.721565			
Adjusted R-squared	0.671210			
F-statistic	10.07279			
Prob(F-statistic)	0.000003			
Durbin-Watson stat	1.847021			

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

Table 2 shows that the error correction coefficient had the expected negative sign and lies between the usual range of 0 and 1. Precisely, this speed of adjustment is -0.348199suggesting that about 35% of errors generated in each period is automatically corrected by the system in the subsequent period and is statistically significant. It is worthy of mention that this speed of adjustment was moderate, meaning that the adjustment process to restore equilibrium after disturbance is moderately rapid.

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 2). 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 2 summarized the test of hypothesis.

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

In Nigeria, exchange rate has a probability value of0.3101> 0.05 which suggests statistically insignificance. On the other hand, monetary policy rate, inflation, crude oil price and credit rating emerged with the following probability values 0.0295, 0.0075, 0.0025 and 0.0105, respectively. It then implies that monetary policy rate, inflation crude oil price and credit rating were the most significant traditional cross border investment vehicles that influenced the Nigerian derivative market in the long run.

In Kenya, exchange rate turned out with a probability value of 0.0000 < 0.05, central bank rate and inflation rate with a probability value of 0.8684> 0.05 and 0.9321> 0.05, crude oil price emerged with a probability value of 0.0020< 0.05, and credit rating 0.5010> 0.05. This shows that exchange rate and crude oil price were the core traditional cross border investment vehicles that affected the Kenyan derivative market in the long run.

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 on 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 because 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.

Across the four models for Nigeria and Kenya, it was observed that the credit rating (CRATE) was negative for Nigeria but positive for Kenya in three of the models. This could be an indication that Kenya has been credit worthy than Nigeria. Also, this could explain why the trend of capital market indices is underperforming in Nigeria than Kenya. A highly indebted country would lose the trust of both domestic and foreign investors thereby inhibiting capital market activities. Poor credit rating would then lead to poor macroeconomic trends which would bring about low capital market performance. Studies such as Atanda

(2010); Oruta (2015) have mentioned in their respective studies that capital markets lack the ability to thrive under poor credit rating.

Conclusions and Recommendation

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.

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

It was observed that inflation largely has significant effects on capital market performance indices in the long run for Nigeria and Kenya. As the inflation rate changes, capital market changes significantly. Therefore, the policy makers need to study consumer behaviour and keep their countries' buying or purchasing patterns constant or better, this will thus be an effective way of monitoring and maintaining the inflation rate at the desired levels towards achieving a better capital market performance.

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