

MACROECONOMIC INFLUENCES ON GROWTH STOCK VALUATION: EVIDENCE FROM THE NIGERIAN CAPITAL MARKET**Uche Toby Agburuga and Judith Chidinma Iheakanwa****Department of Accounting, Federal University Otuoke****PMB 126 Yenagoa, Bayelsa State, Nigeria***Email: agburugaut@fuotuoike.edu.ng***ABSTRACT**

This study investigates the macroeconomic influences on the valuation of growth stocks listed on the Nigerian Exchange Group (NGX) between 2018 and 2022. Using an ex-post facto research design, the study analyzed secondary data from 21 purposively selected growth-oriented firms. Multivariate regression analysis was employed to examine the relationships between inflation rate, stock returns, and growth stock performance. The findings reveal a significant negative relationship between inflation and growth stock value, indicating that higher inflation rates erode investor confidence and reduce growth stock valuations. Conversely, stock returns exhibited a significant positive effect on the value of growth stocks, with results suggesting that a 1% increase in stock returns leads to a 313% increase in growth stock valuation. This highlights the strong influence of market performance on growth-oriented investments. The study emphasizes the importance of macroeconomic stability, particularly effective inflation control, to sustain investor interest and enhance capital market performance. The findings align with the Efficient Market Hypothesis and support prior empirical literature on the sensitivity of growth stocks to macroeconomic variables. Policymakers are advised to implement strategies that stabilize inflation, while investors are encouraged to consider stock return trends when evaluating growth stock investments in inflationary environments.

Key words: *Investment valuation, stock price volatility, market performance, panel data regression, inflation, stock returns*

INTRODUCTION

Inflation is the sustained rise in the general price level of goods and services, which gradually diminishes the purchasing power of money. When inflation accelerates, it injects volatility and uncertainty into financial markets, eroding the real value of fixed-income investments and complicating portfolio management (Jepkemei, 2017).

At its core, inflation emerges when the growth of a nation's money supply outpaces its economic output. Economists commonly monitor price changes through the Consumer Price Index (CPI), the benchmark indicator that tracks the percentage change in the cost of a representative "basket" of household goods and services (Fernando, 2023; Reserve Bank of Australia, 2022). To prevent runaway inflation, central banks adjust monetary policy—controlling money supply and credit—to keep price increases within target ranges and support stable economic expansion (Fernando, 2023). The Consumer Price Index is constructed from seven major categories—housing, food, transportation, clothing, entertainment, and others—each weighted according to its share of total household expenditure. National statistical agencies periodically survey consumer spending to update these weights. Price data are then collected from retailers, service providers, and government sources, combined, and weighted to yield the monthly CPI figure. Though widely used, both the CPI and the Producer Price Index can, according to the Federal Reserve, overstate inflationary pressure (Georgi, 2020).

Inflation takes different forms. Demand-pull inflation occurs when an influx of money and credit boosts aggregate demand faster than the economy's capacity to produce, driving up prices as consumers compete for limited output. Positive consumer sentiment and rising spending exacerbate this gap between demand and supply (Fernando, 2023). In contrast, cost-push inflation originates with rising input costs—often after a supply-side shock or speculative boom in commodities—that

feed through production chains and elevate final prices. An expanded money supply can fuel speculation in markets like oil, pushing energy costs higher and amplifying consumer-price inflation (Fernando, 2023).

Built-in inflation, or wage-price inflation, reflects adaptive expectations: as people see prices climbing today, they anticipate similar rises tomorrow. Workers then demand higher wages to maintain their living standards, which in turn raises production costs and prices, creating a self-reinforcing wage-price spiral (Fernando, 2023).

Beyond price dynamics, the stock market underpins economic growth by enabling firms to raise capital for expansion through initial public offerings or rights issues. This access to equity financing is often more cost-effective than debt, and it channels household savings into productive investments, thereby fueling innovation, job creation, and broader development (Muriuki, 2014).

The stock market operates on constant change, challenging investors and fund managers to forecast share prices with precision in order to secure acceptable returns (Malhotra & Tandon, 2013). According to Malhotra and Tandon (2013), equities offer both liquidity and the chance to outperform the broader market, yet accurately predicting price movements remains a complex endeavor.

A stock market return measures the gain or loss in an investment's value over a specified period. A positive return indicates a profit, while a negative return reflects a loss. Total returns on stocks include dividends and interest payments alongside price fluctuations; isolating only the price change yields the nominal return (MoneySense Editors, 2023). Dhand (2022) defines stock return as the sum of all dividends plus capital gains, minus the initial investment cost, divided by that cost and multiplied by 100 to express the result as a percentage.

Total stock return combine capital appreciation and dividends and there provide a comprehensive picture of a share's performance over time. This metric is particularly useful for comparing dividend-paying stocks against those without distributions, as well as for evaluating returns across holdings of different durations (Mun et al., 2018).

Growth stocks belong to companies whose revenues or net incomes expand faster than the market average. Investors buy these shares expecting their prices to rise alongside accelerating earnings. Unlike income stocks—chosen for reliable dividends—and value stocks—purchased for rebound potential—growth shares typically reinvest profits rather than pay out dividends, with investors relying on future price appreciation for gains (Taube, 2023; Adam, 2022).

Growth companies often share several traits: distinctive product lines, patent portfolios, or proprietary technologies that secure competitive advantages. They reinvest earnings into research and development to sustain innovation, building customer loyalty and capturing market share. For example, an app developer first to market with a new service can solidify its growth-stock status by attracting and retaining the largest user base, creating a barrier for later entrants and maximizing its upside potential (Adam, 2022).

Recent volatility in the Nigerian Stock Exchange has significantly impacted listed firms, particularly growth stocks, which inherently carry higher risk due to aggressive expansion strategies. Persistent inflation further complicates investor decisions, potentially eroding market value and investor confidence. This study specifically explores inflation's direct influence on growth stock valuations and returns, clearly differentiating it from dividend-focused investment approaches.

Furthermore, the effect of inflation on growth stocks remains controversial due to issues in the international financial market. A significant proportion of investment in the capital market is foreign portfolio investment, exposing stock prices to international monetary shocks. The capital market crash in 2007/2008 was attributed to the global financial crisis during that period. Given this context, this study aims to examine the effect of inflation on dividend and growth stock prices in Nigeria. Therefore, this study seeks to explore the paradigm of inflation and stock returns in relation to growth stocks in Nigeria, using the framework of two null hypotheses: (1) The inflation rate has no significant effect on growth stocks in Nigeria, and (2) Stock returns have no significant effect on growth stocks in Nigeria.

Literature Review

When a company is expected to grow, investors remain willing to invest (even at a high P/E ratio). This is because several years down the road the current stock price may look cheap in hindsight. The risk is that growth doesn't continue as expected. Investors have paid a high price expecting one thing, and not getting it. In such cases, a growth stock's price can fall dramatically (Adam, 2022).

An advantageous effect of inflation to stocks is commonly believed. The reason is that the returns to shareholders are increased due to inflation since product prices increase faster than interest (Udoka et al., 2013). Hardin et al., (2012) stated that if investors are unsuccessful in adjusting nominal growth rates with nominal discount rates, stock prices will be undervalued (overvalued) when inflation is comparatively high (low).

Inflation is bound to impact all sectors, either directly or indirectly. Inflation and stock market have a very close association. If there is inflation, stock markets are the worst affected. Prices of stocks are determined by the net earnings of a company. It depends on how much profit, the company is likely to make in the long run or the near future. If it is reckoned that a company is likely to do well in the years to come, the stock prices of the company will escalate. On the other hand, if it is observed from trends that the company may not do well in the long run, the stock prices will not be high. In other words, the price of stocks is directly proportional to the performance of the company. In the event when inflation increases, the company earnings (worth) will also subside. This will adversely affect the stock prices and eventually the returns (Jepkemei, 2017).

There are two main channels in which inflation appears to affect stock prices. The first channel is the impact of inflation on the potential earnings of the firms. The other one is the way investors regulate their discount rate for future cash flows. A less stability was found in the prices of stocks and a higher investment uncertainty if there is an indication of inflation. The perception of this study is a negative relationship between inflation and stock prices since the latter are the reflection of future activity of the economy (Bhar, 2010). Morris (2009) explained that one factor responsible for the fall in stock prices during the period of inflation is also a rise in interest rates as the Federal Reserve tightens the supply of money to reign in borrowing. The higher earnings of the companies may be perceived by the investors as a product of higher prices rather than productivity gains. Thus, investors might not be willing to pay for the current price of the stock or if they own stocks already, may decide in selling those. As the expectation of the investors stumbles because of these conditions, stock prices are expected to fall.

The stock market is central to economic growth, providing companies essential access to capital through public share issuance. Investment in growth stocks—defined by rapid earnings and revenue expansion—offers investors significant potential capital gains, contrasting sharply with dividend stocks, which emphasize regular dividend payouts (Adam, 2022). Growth stocks typically reinvest profits to sustain competitive advantages through innovation and market share expansion, as exemplified by companies like Amazon (AMZN).

The relationship between inflation and stock performance remains complex. Inflation can negatively influence stock valuations due to higher input costs and reduced profit margins, leading to lower investor confidence (Bhar, 2010). Conversely, inflation can indirectly boost nominal returns for firms able to raise prices faster than input costs, a scenario beneficial for growth-oriented firms (Udoka et al., 2013).

Nigeria Stock Exchange has in the recent past faced severe fall in market price of share which has significantly affected the value of many listed firms. The stock price of listed firms is a matter of concern not only to the management of the firm but also to other stakeholders such as investors, employees, suppliers and customers. A fall in the stock price of a firm subsequently decreases its value and the demand for equity of the firm in the market fall. This induces further fall in share price. When this happens, the life of the company is affected and its management may be threatened with adverse consequences such as the discontent of individual and corporate investors (Ejem, et. al., 2020).

Growth stocks are characterised as a risky investment venture compared to dividend stocks which is less risky. This is because these companies aim to generate profits by gaining significant market advantage, through aggressive business strategies. Such companies tend to forgo on dividend payments for reinvestment for expansion purposes, which is a major disadvantage to investors. The underlying performance of growth stocks can also be a result of the persistent economic condition in a country. In case a financial bubble is witnessed, any company functioning in that sector tends to over-perform beyond their potential. Such growth can be misleading, as it is based on an economic abnormality.

Basse and Reddemann (2011) examine the relationship between dividend stock, corporate earnings, real growth stock and inflation by applying co integration techniques. The study confirms that inflation has a positive effect on dividends. Ahmadi (2016) also investigates the relationship between inflation and stock index at Tehran Stock Exchange for the last ten years. Pearson correlation, regression equation and path analysis were used to determine the relationship between variables from 2005-2014. The results indicate that there are positive and meaningful correlations between inflation and stock index as well as industry index while the increase in inflation results in the index increase too.

METHODOLOGY

Using an ex-post facto research design, this study examined 21 companies with notable growth characteristics, selected through purposive sampling from 161 companies listed on the NGX. Purposive sampling was chosen for this study because it allows the researcher to intentionally select companies that exhibit pronounced growth characteristics. This method ensures that the sample is specifically tailored to the research objectives, facilitating a more accurate and relevant analysis of the hypotheses. By focusing on companies that meet certain criteria, the study can better explore the direct influence of inflation on growth stock valuations and returns, providing more meaningful insights into the research questions. This approach is particularly useful when the goal is to gain a deeper understanding of specific phenomena within a targeted group (Babbie, 2002; Malhotra & Tandon, 2013; and Muriuki, 2014).

Secondary data from the Nigerian Bureau of Statistics and the Nigeria Stock Exchange, covering the period from 2018 to 2022, were analyzed using multiple regression analysis. Purposive sampling was chosen as the most appropriate technique for this study, as it allowed the researcher to select observations that best facilitated the testing of the hypotheses.

Measurement of Variables

Table 1 Measurement of Variables

Growth Stock represent the dependent variable while Inflation rate and Stock Returns represent the independent variables.

Variables	Measurement	Authorities
Growth Stock	Growth stocks are typically measured using the price-to-earnings (P/E) ratio, which is calculated by dividing the market value of the stock by earnings per share. This method is widely used to gauge the value of a company's stocks. P/E ratio = $\frac{\text{Market value of stock}}{\text{Earnings per share}}$	Taube, 2023; Adam, 2022.
Inflation Rate	The inflation rate is commonly measured using the Consumer Price Index (CPI), which tracks the percentage change in the price of a basket of goods and services consumed by households. This method is a standard approach used by economists and financial analysts. Inflation rate = $\frac{\text{Final CPI index value} - \text{Initial CPI index value}}{\text{Initial CPI index value}} \times 100$	Fernando, J. (2023)
Stock Returns	Stock returns include dividends and price changes. Total return of a stock encompasses capital gains and losses plus	Mun et al. (2018)

	dividend income. Nominal return measures only the rate of change in prices, calculated as the initial price divided by the closing price	
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Source: Author's Compilation

Model Specification

The Ordinary Least Squares (OLS) multiple regression model is a statistical method used to estimate the relationships between a dependent variable and multiple independent variables. It aims to minimize the sum of the squared differences between the observed and predicted values of the dependent variable, ensuring the best fit for the data. The coefficients (β) are estimated in such a way that the sum of the squared residuals (the differences between the observed and predicted values) is minimized. This method is widely used in econometrics, finance, and various fields of research to understand the impact of multiple factors on a single outcome.

Following the functional form of the OLS multiple regression model, the model for this study is specified as follows;

$$GS = f(INF, SR) \quad (1)$$

The transformation of the functional form, Equation (1) above translates to the general form of the OLS multiple regression econometric model:

$$GS_t = \beta_0 + \beta_1 INF_t + \beta_2 SR_t + \mu_t \quad (2)$$

Where;

GS_t = Growth Stock in current period

INF_t = Inflation Rate in current period

SR_t = Stock Returns in current period

μ = Error term.

β_0 = Intercept of the regression.

β_1, β_2 and β_3 = Beta (coefficients) of the independent variables

Method of Data Analysis

The study employed multivariate analysis using a multiple regression model. Initially, diagnostic tests for normality, homoscedasticity, and multicollinearity were conducted to ensure the model's suitability. The results of the Cross Section Dependency Test for the Growth Stock model (as shown in Table 6 in the Appendices) indicate that there is cross-sectional independence in the residuals. This conclusion is based on the Pesaran CD test, which has a p-value of 0.9098. Since this p-value is greater than the significance level of 0.05, we fail to reject the null hypothesis of no cross-section dependence. This means that the residuals are cross-sectionally independent. Similarly all the other tests namely the Peraran Scalled LM Test, the Bias=Corrected Scalled LM Text and the Pesaran CD Tests all suggest that there is no significant cross section dependence in the residuals as their P-values were all above 0.05 except that of Breusch-Pagan LM Test in which the p-value of 0.0499 is slightly below the 0.05 threshold, suggesting some evidence of cross-section dependence.

Overall, the Pesaran CD test result, with its high p-value, provides strong evidence that the residuals are cross-sectionally independent. This means that the residuals from different cross-sections do not exhibit significant correlation with each other and therefore the results of the data analysis can be relied upon.

Descriptive Analysis

The summary of the statistical properties of the variables used in this study as shown above in table 2 revealed an average P/E ratio for growth stocks of 9.47, with substantial variability; with a maximum and minimum value of 61.400 and -0.3740. The standard deviation is 11.089. Inflation rate (INF) Inflation averaged 14.51%, with notable volatility. The maximum and minimum value is 18.8500 and 11.400 while the deviation from the sample mean is by 2.90866. Also stock return (SR)

has an average value of 0.1% and approximately (0.0113) with its maximum and minimum value being 0.4063 and -0.1969 respectively. The standard deviation is 0.1005.

Skewness Coefficients for growth stock (GS) has its value as 1.77051 and shows to be positive. Also coefficients for inflation rate (INF) has its value as 0.414472 shows a normal skewness and stock return (SR) with value 1.20332, indicates a negative skewness and have a long left tail. Kurtosis coefficient for Stock Returns (SR) has a positive kurtosis and it's leptokurtic in nature with a kurtosis value of 5.8878. Inflation rate (INF) with a kurtosis value of 1.484094 is said to be a negative kurtosis and by this, it is platikurtic while growth stock (GS) is leptokurtic as it has its value at 7.118514 which is greater than 3.

Correlation Analysis

Correlation Analysis helps to determine the relationship between the dependent and the independent variables in a model. Table 3 in the appendix shows the correlation analysis of for growth stock, inflation rate and Stock returns respectively. The Correlation Analysis demonstrated a moderate positive correlation (0.32) between growth stock values and returns, while a slight negative correlation (-0.04) was observed with inflation.

The analysis shows that inflation rate (INF) has a correlation coefficient of -0.041274 with growth stock (GS). This reveals a negative relationship between growth stock and inflation rate. The analysis also shows that stock returns (SR) has a correlation coefficient of 0.354067 with growth stock (GS). The result implies that there is a positive relationship between stock return and growth stock.

Panel Unit Root Test

The panel unit root test results in Table 4 of the appendix indicate that all the variables of interest are $I(0)$, meaning they are stationary at levels. The p-values for the LL&C and PP-Fisher Chi-square tests are less than 5%. This allows us to proceed with testing the hypothesis using Panel Least Squares analysis for the growth stock model.

Test of Hypotheses

The study employed panel data regression analysis to explore the effect of inflation rate and stock return on dividend stock and growth stock of growth stock companies in Nigeria. Table 5 in the appendix shows the baseline estimation result in which dividend stock is regressed on inflation rate and stock return of growth stock companies under study.

From table 5 in the appendix, the coefficient of the determinant (Adjusted R-squared) of 0.867673 suggests that about 86% variation of the dependent variable; (GS) growth stock are explained by the independent variables (inflation rate and stock return). The 14% variance in growth stock is explained by other factors not captured in this research. Also, the Durbin-Watson stat of 1.283259 is not greater than 3 which connotes that there is no serial correlation and the Prob(F-stat) of 0.00000 suggests that the model is significant at 5% level.

Ho1: Inflation Rate Has No Significant Effect on Growth Stock in Nigeria

The analysis results presented in Table 5 in the appendix indicate a negative (t-statistic: 2.603113) and significant (p-value: 0.0112) relationship between the inflation rate (INF) and growth stock (GS) of the sampled companies. This negative effect suggests that a 1% increase in the inflation rate (INF) will likely decrease the value of growth stock (GS) by 0.085472 (0.85%). Therefore, the inflation rate (INF) has a negative but significant effect on the growth stock (GS) of the selected companies. Consequently, we reject the null hypothesis and accept the alternative hypothesis that there is a significant relationship between the inflation rate and the value of growth stocks in Nigeria.

Ho2: Stock Returns Have No Significant Effect on Growth Stocks in Nigeria

The analysis results presented in Table 5 indicate a positive (t-statistic: 1.968399) and significant (p-value: 0.0528) relationship between stock returns (SR) and growth stock (GS) of the sampled companies. This positive effect implies that a 1% increase in stock returns (SR) will likely increase the level of growth stock (GS) by 3.131004 (313%). Therefore, stock returns (SR) have a positive and significant effect on the growth stock (GS) of the selected companies. Consequently, we reject the null hypothesis and accept the alternative hypothesis that there is a significant relationship between stock returns and the value of growth stocks in Nigeria.

Discussion of Findings

The findings of this study provide significant insights into the relationship between inflation rates, stock returns, and growth stocks in Nigeria. The results indicate that inflation has a negative and significant effect on growth stocks, while stock returns have a positive and significant effect. The negative relationship between inflation and growth stocks is consistent with existing literature. According to Fama and Schwert (1977), inflation can erode the real value of future cash flows, leading to a decrease in stock prices. This is particularly relevant for growth stocks, which are valued based on their expected future earnings. As inflation increases, the present value of these future earnings decreases, resulting in lower stock prices. This finding aligns with the results of this study, which show that a 1% increase in the inflation rate tends to decrease the value of growth stocks by 0.85%. More recent studies, such as those by Akani and Uzobor (2015), and Iwegbu and Adeoye (2020), have also found similar negative impacts of inflation on stock prices in Nigeria.

On the other hand, the positive relationship between stock returns and growth stocks is also supported by previous research. According to Campbell and Shiller (1988), stock returns are a key determinant of stock prices. Higher stock returns indicate better performance and profitability, which can lead to an increase in stock prices. This is particularly true for growth stocks, which are often characterized by high growth potential and strong performance. The results of this current study show that a 1% increase in stock returns tends to increase the value of growth stocks by 313%, highlighting the significant impact of stock returns on growth stock valuations. Recent studies by Arhenful, Ntiamoah, and Kwaning (2022) have also demonstrated the positive relationship between stock returns and stock prices in emerging markets.

Furthermore, the findings of this study are consistent with the Efficient Market Hypothesis (EMH), which suggests that stock prices reflect all available information (Fama, 1970). The significant relationships between inflation, stock returns, and growth stocks indicate that the Nigerian stock market is responsive to macroeconomic variables and market performance, supporting the notion of market efficiency.

In conclusion, this study provides valuable insights into the dynamics of growth stocks in Nigeria. The negative impact of inflation and the positive impact of stock returns on growth stocks highlight the importance of macroeconomic stability and market performance in influencing stock valuations. These findings have important implications for investors, policymakers, and market participants, emphasizing the need for effective inflation control measures and strategies to enhance stock market performance.

Sure! Here's the summary of findings, practical implications, and conclusion:

Summary of Findings

This study examined the impact of inflation rates and stock returns on growth stocks in Nigeria. The findings revealed a negative and significant relationship between inflation rates and growth stocks, indicating that an increase in inflation tends to decrease the value of growth stocks. Conversely, the study found a positive and significant relationship between stock returns and growth stocks, suggesting that higher stock returns lead to an increase in the value of growth stocks.

CONCLUSION

In conclusion, this study provides valuable insights into the dynamics of growth stocks in Nigeria. The negative impact of inflation and the positive impact of stock returns on growth stocks emphasize the importance of macroeconomic stability and market performance in influencing stock valuations. These findings have important implications for investors, policymakers, and market participants, highlighting the need for effective inflation control measures and strategies to enhance stock market performance. By addressing these factors, stakeholders can contribute to the sustainable growth and development of the Nigerian stock market.

RECOMMENDATIONS

The results of this study have several practical implications for investors, policymakers, and market participants that constitute the basis of our recommendations. Investors should understand that the negative impact of inflation on growth stocks can help them to make informed decisions about their investment portfolios. Investors may consider diversifying their investments to include assets that are less sensitive to inflation or adopting strategies to hedge against inflation risks. The findings also highlight the importance of maintaining macroeconomic stability to support the growth of the stock market. Policymakers should implement effective inflation control measures to mitigate the adverse effects of inflation on stock valuations and investor confidence. The positive relationship between stock returns and growth stocks underscores the significance of market performance in influencing stock valuations. Market participants should focus on enhancing market efficiency and transparency to attract more investments and boost market performance.

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APPENDIX

Table 1: Selected Companies in Nigeria below:

S/N	COMPANIES	S/N	COMPANIES
1	INTBREW	12	ZENITHBANK
2	ARDOVE	13	OKOMUOIL
3	TRANSCORP	14	FCMB
4	ACCESSCORP	15	FIDELITY BANK
5	MTN NIGERIA	16	BUACEMENT
6	STANBIC	17	FLOURMILL
7	GUINNESS	18	BUAFOODS
8	NESTLE	19	NASCON
9	GTCO	20	UBA
10	WAPCO	21	DANGOTE CEMENT
11	UNILEVER NIGERIA		

Source: Nigeria Exchange Group (2023).

Table 2: Descriptive Analysis

	GS	INF	SR
Mean	9.472389	14.51000	0.011254
Median	5.502841	13.25000	0.000000
Maximum	61.40000	18.85000	0.406364
Minimum	-0.374000	11.40000	-0.196970
Std. Dev.	11.08998	2.908687	0.100512
Skewness	1.770513	0.414472	1.203321
Kurtosis	7.118514	1.484094	5.887802
Jarque-Bera	116.7749	11.81609	55.93652
Probability	0.000000	0.002718	0.000000
Sum	899.8770	1378.450	1.069137
Sum Sq. Dev.	11560.83	795.2830	0.949659
Observations	95	95	95

Source: EvIEWS Version 10

Average P/E ratio for growth stocks of 9.47, with substantial variability; with a maximum and minimum value of 61.400 and -0.3740. The standard deviation is 11.089. Inflation rate (INF) averaged 14.51%, with notable volatility. Kurtosis coefficient for Stock Returns (SR) has a positive kurtosis and it's leptokurtic in nature with a kurtosis value of 5.8878. Inflation rate (INF) with a kurtosis value of 1.484094 is said to be a negative kurtosis and by this, it is platikurtic while growth stock (GS) is leptokurtic as it has its value at 7.118514 which is greater than 3.

Table 3: Correlation Analysis for Growth Stock

Covariance Analysis: Ordinary				
Sample: 2018 2022				
Included observations: 95				
Covariance	GS	INF	SR	
Correlation				
GS	121.6930			
	1.000000			
INF	-1.317370	8.371400		
	-0.041274	1.000000		

SR	0.354067	0.002335	0.009996
	0.321019	0.008071	1.000000

Source: E-Views 10

The analysis shows that inflation rate (INF) has a correlation coefficient of -0.041274 with growth stock (GS). This reveals a negative relationship between growth stock and inflation rate. The analysis also shows that stock returns (SR) has a correlation coefficient of 0.354067 with growth stock (GS). The result implies that there is a positive relationship between stock return and growth stock.

Table 4: Summary of Panel Unit Root Test

	Levin, Lin & Chu	ADF - Fisher Chi- square	PP - Fisher Chi- square	Level of integration	remark
GS	0.0000	0.0227	0.0032	I(O)	Stationary
INF	0.0000	0.0000	0.0000	I(O)	Stationary
SR	0.0000	0.0027	0.0000	I(O)	Stationary

Source: E-views Version 10.

Their p-values are less than 5% with respect to LL&C and PP- Fisher Chi-square. This permits us to test the hypothesis using Panel least square analysis for growth stock model

Table 5. Panel Regression Analysis on Growth stock model

Dependent Variable: GS

Method: Panel EGLS (Cross-section weights)

Sample: 2018 2022

Periods included: 5

Total panel (balanced) observations: 95

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.67735	0.481690	22.16642	0.0000
INF	-0.085472	0.032835	-2.603113	0.0112
SR	3.131004	1.590635	1.968399	0.0528

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.895827	Mean dependent var	17.56567
Adjusted R-squared	0.867673	S.D. dependent var	15.34577
S.E. of regression	6.499127	Sum squared resid	3125.660
F-statistic	31.81797	Durbin-Watson stat	2.232058
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.708576	Mean dependent var	9.472389
Sum squared resid	3369.105	Durbin-Watson stat	1.283259

Source: E-views Version 10

The result from the analysis displayed Table 5, indicates a positive (t statistics, 1.968399) and significant (p-value, 0.0528) relationship between stock return (SR) and growth stock (GS) of the sampled companies. The result from the analysis displayed Table 5, indicates a positive (t statistics, 1.968399) and significant (p-value, 0.0528) relationship between stock return (SR) and growth stock (GS) of the sampled companies. This positive effect implies that a 1% increase in stock return (SR) will tend to increase the level of growth stock (GS) by 3.131004 (313%).

Table 6: Cross Section Dependency Test for Growth Stock model
Residual Cross-Section Dependence Test
Null hypothesis: No cross-section dependence (correlation) in weighted
Total panel observations: 95

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	202.5278	171	0.0499
Pesaran scaled LM	1.704828		0.0882
Bias-corrected scaled LM	-0.670172		0.5027
Pesaran CD	-0.113325		0.9098

Source: E-views 10

The results above show that there is cross sectional independence in the residuals this means the residual are cross-sectionally independent since the Pesaran CD test Prob value is 0.9098 which is greater than 0.05.