

The Influence of Macroeconomic Factors on Stock Market Returns in E-7 Economies

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Abstract

The emerging economies have expanded rapidly and played a vital role in the global financial system over the past 2 decades. Although emerging countries have made efforts to stabilise their markets, they are still considered unstable and unpredictable, unlike the established stock markets of developed countries. The purpose of the study is to investigate the impact of macroeconomic factors and stock market returns in E7 economies using annual data from 2000 to 2023. E7 economies are the world's top emerging economies: Brazil, Russia, India, China, Mexico, Indonesia, and Turkey. The independent variables are GDP, inflation, interest rate, unemployment rate, and exchange rate, while FDI, MS, and Political instability are used as control variables. Using panel data analysis, this study employed the FEM and REM to investigate the significant influence of macro-economic variables on stock returns and the Hausman test was used to select the most appropriate model. The findings of this study indicate that GP, inflation, and interest rates have significant influence on stock returns; unemployment and political instability have negative and significant influences, while exchange rates, FDI, and money supply have insignificant effects on stock returns in E7 economies. The study's findings highlight the importance of stable macroeconomic factors and political stability for stock market growth and offer valuable insights for investors, policymakers, and economists seeking to enhance market resilience in emerging economies.

Keywords: Stock Returns, Macroeconomic Factors, Fixed and Random Effect Model, Political Instability, E-7 Countries.

Introduction

For a long time, experts have debated the influence of economic fundamentals on stock returns. The stock market plays a crucial role in a country's economic development. SM helps companies and businesses grow by raising capital from investors, enabling them to expand and earn more profit. On the other hand, investors find places to invest money, earn profits, and gain ownership in companies. Many factors influence SM performance; major ones include macroeconomic variables (GDP, INR, inflation, and others). A country's political situation also plays an important role in SM growth. Knowledge of these factors is essential for policymakers and investors to gain deeper insight into SM behaviour, enabling them to anticipate the

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influence of macroeconomic factors better and make more informed decisions for economic development and enhanced profits.

Later, SM opened doors for other securities to trade. Numerous investment options have opened for investors to invest in line with their risk tolerance in securities. The stock market is high in value, and investors closely monitor daily market activity before buying and selling stock to achieve higher profits. A substantial body of literature defines the relationships between macroeconomic variables and SR specifically for developed countries. However, the literature for major emerging countries remains insufficient. The results are consistent across developed economies, but inconsistent across emerging countries, leading to conflicting results (Engle & Rangel, 2008). Defined the higher volatility of SM in emerging countries, and macroeconomic variables are more volatile in the SM of emerging economies. The SM of emerging countries is more sensitive to fluctuations, politics, and global economic conditions. Although many studies have contributed to understanding the relationship between macroeconomic factors and stock returns in a single developing market, studies across multiple emerging economies are still needed (Tripathi & Kumar, 2015). In contemporary years, there has been an increased focus on the relationship between macroeconomic variables and stock market performance, particularly in emerging markets. These emerging economies are continuing to proliferate and industrialise. The emerging economy gained attention due to rapid growth and economic expansion. Due to their high growth potential, these emerging economies offer valuable insights into the macroeconomic determinants of stock returns. Among the emerging countries, the E7 economies (Brazil, China, Russia, Turkey, Indonesia, India, Mexico) have large populations, growing middle classes, and expanding markets. Investors, policymakers, and financial experts need to understand the role of macroeconomic variables in the SR of E7 countries, as developed countries have a stable economic system, while emerging countries face greater uncertainty. Macroeconomic factors can have different effects on stock returns in emerging economies, so it is crucial to examine how they respond to these factors. The responses of macroeconomic factors to their stock markets certainly vary in markets and investment horizons. In developing countries, the relationship between stock returns and macroeconomic factors is significant, whereas in developed countries, it is well-established and consistent (Barakat et al., 2016).

The relationship between SR and macroeconomic factors has been studied extensively by researchers worldwide. The issue has been studied extensively in the past, but the enormity of enabling has hindered research, especially in emerging states (Ernest et al., 2016) Investigate the link between the stock markets of 41 emerging economies and macroeconomic factors; the study used 41 countries from 1996 to 2011. The study has shown a direct relationship between EXR and INF with SR: a reduction in Inflation and EXR depreciation leads to a decrease in SR. At the same time, an increase in the MS has a positive influence on SR. The study highlights that factors such as INF, EXR, MS, and GDP are highly significant for SR in emerging countries. According to Siang and Rayappan (2023) and Bai (2014), the association among the determinants (inflation, EXR interest, GDP, and SR) is strong. According to Le Cuong (2024), macroeconomic factors have a significant effect on SR, as shown by regression analysis (Apergis et al., 2011) analysed the dynamic relationship between macroeconomic factors and SR using a group of emerging economies.

Arbitrage Pricing Theory

APT, introduced by Ross (1976), is closely associated with the stock price and is influenced by macroeconomic variables as risk factors. APT provides a clear picture; macroeconomic variables work together to influence the expected return on stocks. If stock prices are not aligned with the market's economic conditions, the stock is mispriced. Mispricing of a stock creates an arbitrage opportunity for investors, as the stock's price differs from its intrinsic value

and varies across markets. It creates an arbitrage opportunity for investors to buy the stock at a lower price and sell it at a higher price in other stock markets. An arbitrage opportunity helps correct stock prices over time. This leads to a stable stock price, because of demand and supply and the SP is adjusted according to economic conditions. According to Pramod Kumar & Puja (2012), macroeconomic factors affect the stock market.

Efficient Market Hypothesis

The EMH by Fama (1970) states that markets reflect all available information about the economy and politics, and that investors consistently achieve profits due to the latest information and changes in INF, GDP, INR, etc. According to the semi-strong form of the EMH, SR immediately adjusts in response to changes in macroeconomic factors and publicly available information. It suggests that investors behave rationally in response to economic details. So, studies by Chwert (1977), Nelson (1977), and others critically examined the EMH and showed that the market is not fully efficient. Changes in macroeconomic events affect stock prices; political events and news also affect the SP. There is no perfect efficiency in SM, and economic activities influence the SP. When a country's inflation rises, people buy stocks to reduce its impact.

Literature Review

Many empirical studies have examined the influence of macroeconomic factors on stock returns. Previous studies on this topic focused on advanced and developed countries. In contrast, recent studies focus on developing and emerging countries because these countries are now playing a significant role in the growth of financial markets. The emerging economies have been expanding rapidly and playing a vital role in the global economic system for the past 2 decades. Although emerging countries have made efforts to stabilise their markets, they remain unpredictable, unlike the established stock markets of developed countries. The primary focus of this study is to examine the determinants of the E-7's stock returns. Past studies, including those of 1980 and 1990, that examined the relationships between macroeconomic factors and stock returns in developed countries reached consensus in their findings. Now, recent research is focusing on developing countries; although much research has been done, it has not shown consistent results.

According to Sathyanarayana and Gargesa (2018), inflation reduces the purchasing power of a currency. This study examined stock indices for several countries from 2000 to 2017 and clearly demonstrated the significant relationship between inflation and SR. To investigate the dynamic relationship among macroeconomic factors, SR development in Ghana (Asravor & Fonu, 2021) used the ARDL approach, showing that MS and INF have negative impacts on SR, while FDI and INR have positive effects on returns. The paper, "Relation of inflation and SR in Bangladesh" by Farrukh et al. (2015), used monthly data from 2004 to 2013 to examine the effect. They have used the ADF and PP test. The results show there is a significant relationship between inflation and SR. Inflation plays a major role in Bangladesh's financial markets. The stock is a way to reduce the impact of inflation because its earnings compensate for the purchasing power loss caused by inflation (Babu, 2017). Investigate the effect of INF on SR by using inflation, GDP, MS, INR, and EXR as variables to examine its impact on SR. This research used data from 2000 to 2016; secondary data on returns were obtained from NSE, KNBS, and CBK. The correlation shows there is a positive and significant relation between inflation and SR. As far as the Exchange and interest rate are concerned, there is a negative relation. The relation between MS and GDP is positive. The study suggests that the authorities ensure a stable macroeconomic environment to support stronger stock market growth. Although many researchers have investigated this relationship, the findings remain

inconsistent, with some empirical studies reporting adverse effects and others showing positive effects.

Empirical evidence explained that GDP growth generally has a positive impact on SM by improving corporate earnings and boosting investor confidence (Pramod Kumar & Puja, 2012). Analysed the relation of ISE and five macroeconomic factors. The data are collected monthly from 1994 to 2011. This study applied the cointegration and VEC model. The results showed that the SM and macroeconomic factors are co-integrated. Results showed a positive relation between MS and SP, and between industrial production and SP, while WSPI shows a negative relation between SP and WSPI. The EXR and INR have no effect. This revealed that macroeconomic factors affect SP in the long term but not in the short term.

Ernest et al. (2016) Investigate the link between 41 emerging stock markets and macroeconomic factors from 1996 to 2011. This study employed four techniques: OLS, FGLS, DOLS, and Newey-West. The study has shown a direct relationship between EXR and INF with SR because a reduction in Inflation and exchange rate depreciation leads to a decrease in stock returns. At the same time, an increase in MS has a positive influence on SR. The study highlights that factors such as INF, EXR, MS, and GDP have substantial effects on the stock returns of emerging countries (Akbar et al., 2012) examined the relation between macroeconomic determinants and KSE from 1999 to 2008. To investigate the effect on the KSE-100 index, the study applied cointegration, error-correction, and the GC test. The findings revealed that macroeconomic factors and the KSE are co-integrated. Unidirectional causality also exists in the study. The survey results showed that MS and SP have a positive relationship, and Interest and Stock prices also have a positive relationship. In contrast, inflation has a negative relationship with SP, and FEXR also has a negative relationship with stock prices. Ifionu and Ibe (2015) examined the effect of INF, interest rate, and GDP on the Nigerian SE from 1985 to 2012. The study used time-series data and employed unit root testing. The JC also used to see the long-run relation. The study revealed strong ties between macroeconomic factors and SM. INF is the most significant factor. To investigate the relationship between GDP and ASE, Sharabati (2013) used data from 1999 to 2012. According to Siang and Rayappan (2023) and Bai (2014), the association between the determinants (INF, EXR, interest, GDP, and SR) is strong. According to Le Cuong (2024), macroeconomic factors have a significant effect on stock returns, as shown by regression analysis (Tripathi & Kumar, 2015).

It is essential to understand the effects of macroeconomic variables on SM to formulate better policies for a country's socio-economic growth. For this purpose, Chowdhury (2017) investigated the impact of macroeconomic factors on SR in CSE over the monthly period 2005-2014. using macroeconomic variables, the INF, interest rate, MS, unemployment rate, exchange rate, and risk premium. The OLS and Durbin-Watson are employed for analysis. The findings suggest that there is a direct relation (positive relation) between interest, INF, MS, the risk premium, and the unemployment rate. When the exchange rate decreases, SM increases, indicating a negative relationship. At the same time, the effects of the variables are insignificant. The study suggests that other macroeconomic variables affect the SM beyond the selected variable. Naseem (2020) investigate the impact of macroeconomic factors on the SR of a group of developed and emerging countries by using the quarterly data from 2003 to 2018. INGR, EXR, INR and INF are used as IVs. The regression technique is employed to get the results. The findings show a positive and significant relationship between INF, IR, and the SM. The EXR has an adverse, considerable relationship with SM, whereas the INDR has an insignificant effect on SM. Ali and Khan (2023) examined the impact of macroeconomic variables on SMP in 3 developing countries (Pakistan, Sri Lanka, and Bangladesh) from 2019 to 2022. The Pool OLS model is employed; OP and Covid-19 have a significant and negative effect on SMP. The INPR and INR have a positive and significant effect on SMP, while the EXR and CPI have no significant impact on the SMP in developing countries.

Significance of the Study

The stock market performance of emerging economies has become a centre of concern because of their importance to global economic development over the past 25 years. The topic is always popular due to investors' interest, as they invest and withdraw money from SM based on the country's macroeconomic factors. Numerous studies have explored their effects, primarily on emerging countries. E7 economies such as Mexico, India, Turkey, China, Brazil, Indonesia, and Russia are a significant part of the global economy, yet few studies have examined these countries as a group. So, this study fills the gap by providing a panel analysis of E7 economies from 2000 to 2023, covering the post-2008 recovery period and the COVID-19 pandemic. Unlike previous research, this study has included Political instability, which better captures the complex realities of emerging markets. Political instability is a crucial factor that undermines investor confidence. This study provides essential implications for investors and policymakers to make better decisions regarding risk, portfolio diversification, and the management of investor sentiment and economic stability.

H1: There is a significant effect of GDP on the stock return of E7 economies.

H2: There is a significant effect of Inflation on the stock returns of E7 economies.

H3: There is a significant effect of interest rates on the stock returns in E7 economies.

H4: Unemployment has a significant effect on the stock returns of E7 economies.

H5: There is a significant effect of the exchange rate on stock returns in E7 economies.

Methodology

The study used the World Bank and investing.com databases; the collected data spanned 24 years, from 2000 to 2023. The population of interest is the emerging economies of the world; therefore, to represent the entire population, the sample population is the E-7 countries. The group of E-7 economies includes Russia, Turkey, China, India, Indonesia, Brazil and Mexico. The purpose of the E7 group is to create a new grouping of the most powerful emerging countries. Data availability is also a reason for the target sample. The sample spans 2000-2023 for stock indexes such as the Bovespa Index, MOEX Russia Index, SSE Composite Index, Nifty50 Index, BIST100 Index, IPC Index, and JCI Index. A quantitative evaluation using panel data has been applied to analyse the model.

Econometric Model

$$SR_{it} = \beta_0 + \beta_1 GDP_{it} + \beta_2 INF_{it} + \beta_3 INR_{it} + \beta_4 UNEM_{it} + \beta_5 EXR_{it} + \beta_6 FDI_{it} + \beta_7 MS_{it} + \beta_8 POLIS_{it} + u_{it}$$

$$SR_{it} = \beta_0 + \beta_1 GDP_{it} + \beta_2 INF_{it} + \beta_3 INR_{it} + \beta_4 UNEM_{it} + \beta_5 EXR_{it} + \beta_6 FDI_{it} + \beta_7 MS_{it} + \beta_8 POLIS_{it} + u_{it} + e_{it}$$

Where:

SR = stock returns,

GDP=gross domestic product,

INF = inflation,

INR= interest rate,

UNEM = unemployment rate,

EXR = exchange rate,

FDI = foreign direct investment,

MS = money supply,

POLIS = political instability,

u_{it} = between country error terms,

e_{it} = within error term,

it: shows numbers of countries & years.

Table 1: Data source

Variables	Measurement	Source	References
GDP	GDP growth (annual%)	WDI	(Patatoukas, 2021)
Inflation	CPI (annual%)	WDI	(Sathyanarayana & Gargesa, 2018)
Interest rate	Real interest rate (%)	WDI	(Muriuki, 2014)
Unemployment rate	(% of total labor force)	WDI	(Gonzalo & Taamouti, 2017).
Exchange rate	National currency per US dollar used as they are	WDI	(Nwosa, 2021; Rahman; Tan et al., 2021).
Stock index return	$(\frac{p_t - p_{t-1}}{p_{t-1}})$	investing.com	(Sathyanarayana & Gargesa, 2018)
Foreign direct investment	FDI (% of GDP)	WDI	(Al Samman & Jamil, 2018)
Money Supply	Board money growth (annual %).	WDI	(Bissoon, Seetanah, Bhattu-Babajee, Gopy-Ramdhany, & Seetah, 2016)
Political instability	measures perceived likelihood of political instability.	World governance indicator	(Ijaz & Sarwar, 2020).

Empirical Results

The descriptive statistics measure the central tendencies such as mean, maximum value, minimum value, as well as standard deviation. According to descriptive statistics, there are 168 observations for the model's variables.

Table 2: Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max
SR	23.79589	31.52366	-67.2	196.58
GDP	4.855451	3.45321	-8.650679	14.23086
INF	7.69067	9.595356	-.7281653	72.30884
INR	9.565421	12.59219	-2.305615	57.98
UNEM	6.623208	2.89892	1.874	14.026
EXR	1648.335	4071.60	0.62521	15236.88
FDI	1.999062	1.116107	-2.75744	5.475126
MS	16.03226	12.52609	-4.487431	90.36813
POLIS	-.6854037	.5698048	-2.01	0.71

Table 2 presents descriptive statistics. The SR indicating considerable volatility in the stock markets of the E7 economies by having 23.79 mean with high standard deviation of 31.52. GDP showing 4.85 mean, ranging from -8.65 to 14.23, reflecting fluctuations in economic performance across countries and years. Inflation displays wide variation, suggesting price instability periods. INR and UNEM both vary notably, High dispersion of EXR indicate substantial currency differences among the economies. FDI has both negative and positive values, implying the presence of inward and outward investment flows. MS varies widely, suggesting differences in monetary expansion across countries. POLIS shows moderate instability.

Table 3: Correlation analysis

Variables	SR	GDP	INF	INR	UNEM	EXR	FDI	MS	POLS
SR	1.0000								
GDP	0.4202** 0.0000	1.0000							
INF	0.4095** 0.0000	0.1191 0.1241	1.0000						
INR	0.1990** 0.0099	0.1557* 0.0484	0.2111** 0.0065	1.0000					
UNEM	-0.3580** 0.0000	-0.2015** 0.0089	0.3028** 0.0001	0.5134** 0.0000	1.0000				
EXR	-0.0736 0.3460	-0.0342 0.6703	-0.0961 0.2207	-0.1204 0.1223	-0.2372 ** 0.0021	1.0000			
FDI	-0.1574 0.0415	-0.1241 0.1038	-0.1836* 0.0179	0.1378 0.0757	-0.1269 0.1013	-0.1482 0.0568	1.0000		
MS	0.4537** 0.0000	0.2796** 0.0003	0.6554** 0.0000	0.2429** 0.0019	0.4084** 0.0000	-0.1702* 0.0309	-0.0375 0.6353	1.0000	
POLS	-0.4643** 0.0000	-0.2150** 0.0000	-0.2259** 0.0041	0.2499** 0.0014	-0.3417** 0.0000	-0.0839 0.2898	0.341** 0.0000	-0.2097** 0.0084	1.0000

Note: At a 1% and 5% level of significance, respectively, correlation with, ** the variables are significant.*

The GDP and SR show a positive correlation at 1% significance level. It indicates the boosts economy rise stocks. Inflation is positive correlated with SR at 1% significant level, but INF is not significantly correlated with GDP. The INR is positively correlated with SR and GDP at the level of 1% and 5% respectively. And correlated with Inflation at 1% level. Unemployment is negatively correlated with SR and GDP at 1% and 5% significance level respectively. It is positively correlated with the Inflation and INR at the significant level of 1%. EXR is negative and insignificant correlated with SR, GDP, inflation and INR but it is negatively and significantly correlated with unemployment rate. FDI is negatively correlated with SR, INF and EXR at 5% significance level. Political instability is negatively correlated with variables at 1% significance. It is evident that political instability reduces economic growth and eliminates a proper mechanism of financial system in a country. The people do not want to invest in a country who has high political instability. Money supply is positively correlated with most variables at significant level of 1%.but negatively correlated with political instability and EXR.

Table 4: Fixed Effect Model for Stock returns

SR	Coeff	Std. Err	T	P> t
GDP	1.877205	.7424085	2.53	0.013*
INF	.8647974	.3192412	2.71	0.008*
INR	1.308146	.2997898	4.36	0.000**
UNEM	-3.235618	1.406141	-2.30	0.023*
EXR	-.0001238	.0022385	-0.06	0.956
FDI	-.7890601	1.894452	-0.42	0.678
MS	.207865	.2222663	0.94	0.351
POLIS	-14.74443	5.276289	-2.79	0.006**
Cons	-37.42081	10.31833	-3.63	0.000

*Note: R-squares within = 0.6963, between = 0.6447 and overall = 0.6498 F statistics = 3.44 and Prob = 0.000. At the 1% significant and 5% significance level respectively, the correlation with **, * the variable is significant.*

Table 4 reveals the findings of fixed effect model. GDP shows a positive relation with the SR at 5% significance level. INF demonstrates positive correlation with SR at 1% statistically

significance. INR exhibits a direct relation with SR at 1% level of significance. UNEM indicates inverse relation at 5% significance level. EXR and FDI indicate negative and insignificant relations. Political instability indicates a significant and inverse correlation with SR at 1% significance level. Finally, MS reveals a direct but statistically insignificant relation.

Table 5: Random Effect Model for Stock returns

SR	Coeff	Std. Err	T	P> t
GDP	2.29571	.6665703	3.44	0.001**
INF	.6638728	.2950574	2.25	0.024*
INR	.844397	.2186562	3.86	0.000**
UNEM	-1.262085	1.023616	-1.23	0.218
EXR	-.0003366	-.0005167	-0.65	0.515
FDI	-.7817319	1.89325	-0.41	0.680
MS	.3363868	.2188226	1.54	0.121
POLIS	-22.07113	4.89169	-4.51	0.000**
Cons	-10.12975	7.645425	-1.32	0.185

Note: R-square within = 0.6675, between = 0.7996 and overall = 0.67 Wald chi2 = 131.25 and Prob = 0.0000. At the 1% significant and 5% significance level respectively, the correlation with **, * the variable is significant.

In table 5, GDP shows a positive relation with SR at statistically significant level of 5%. The INF exhibits positive association with SR of E7 economies at 5% significance level. INR demonstrates positive association at 1% significance level with SR. UNEM, EXR and FDI indicate negative and insignificant relation with SR. Political instability indicates significant and inverse correlation with SR at 1% significant level. The MS shows direct and positive relationship with SR but has insignificant effect. It reports R-square within value is 0.667 and Wald chi-square statistic(131.25) is significant at the 1% level, indicating the overall model's strong explanatory power.

To compare the findings of both model, FEM has a higher within $R^2=69.63\%$, to the within $R^2=66.75\%$ of REM. Both models demonstrate a good fit, as REM indicates a significant Wald Chi2 testing, and FEM reports a significant F-test. It shows substantial proportion of variation in dependent variable explained by independent variables, conforms that both models have a good fit and can predict the change in SR.

Table 6: Hausman test

Variables	Fixed	Random	Difference
GDP	1.877205	2.29571	-0.41851
INF	.8647974	.6638728	0.200925
INR	1.308146	.844397	0.46375
UNEM	-3.235618	-1.262085	-1.97353
EXR	-.0001238	-.0003366	0.000213
FDI	-.7890601	-.7817319	-0.00733
MS	.207865	.3363868	-0.12852
POLIS	-14.74443	-22.07113	7.3267

Chi2 = 18.96 and prob>chi2 = 0.0151

The value of chi-square=18.96 with a corresponding 0.0151p-value at 5% significance level. So, the null hypothesis is rejected as results exhibit no systematic difference among the FEM and REM. Therefore, the fixed effects model considered more appropriate for this analysis.

Table 7: Multicollinearity

Variables	VIF	1/VIF
UNEM	2.38	0.419659
POLIS	2.12	0.472158
INR	2.08	0.480996
MS	2.06	0.485290
INF	1.89	0.530304
GDP	1.48	0.676258
FDI	1.21	0.825186
EXR	1.16	0.860104
Mean Vif	1.80	

Results show no multicollinearity issues as variables are in acceptable range of < 10 . The mean VIF is 1.80. The heteroskedasticity test was carried out to check homoscedasticity in the model estimate, the model does not have a heteroskedasticity issue as the p-value is (0.0827).

Discussion

The study's findings suggest that GDP has a positive, significant relationship with the SR of E7 economies. The findings are consistent with various previous empirical research (El-Nader & Alraimony, 2012; Kushwaha et al., 2023; Wang, 2024). It indicates the country's growth. The increase in economic growth boosts product demand, so firms produce and sell more, earn higher profits, and pay higher dividends; eventually, stock returns also increase. Inflation shows a positive and significant effect on SR. Numerous studies (Al-Shami & Ibrahim, 2013; Babu, 2017; Chowdhury, 2017; Humpe et al., 2025; Hussein, 2017; Mogire, 2016) align with this study's findings. SP could increase with inflation, especially when companies can pass on higher costs to consumers. So, moderate inflation in emerging countries is desirable, as it indicates the economy is growing. According to Spyrou (2004), stock also served as a hedge against inflation, and people invested money in equities. The INR showed a positive, significant relationship with SR. The studies that are aligned with the results are (Ali & Khan, 2023; Khan & Yousuf, 2013; Najjand et al., 2022; Naseem, 2020; Septepana et al., 2024) indicate a boost in the economy as the investors interpret rising INR as strengthening the economy, especially in the financial service sectors (banking sector profit with rising stock indices). The results are also consistent with the Fisher effect theory, which suggests that a rise in INR signals economic growth as inflation rises. Unemployment exhibits a negative and significant relationship with SR (Chen et al., 2005; Wang et al., 2023). Unemployed people are unable to earn and spend more on products that reduce firms' profits. The EXR shows a negative, insignificant relationship. The findings are aligned with many empirical studies (Ali & Khan, 2023; Chowdhury, 2017). The insignificant relations show that the exchange rate does not impact SR growth. The FDI, a control variable in the study, shows a negative but insignificant relationship. When FDI increases, local firms can lose market share because investors view foreign firms as more efficient and competent. Thus, investor confidence is lost, and eventually profits decline. The political and structural issue constrains FDI. MS shows a positive, insignificant relationship with SR. When MS increases, it indicates economic growth in the country. The circulation of money boosts the economy, which increases SR. Political instability has a substantial adverse effect on the SR. The political instability is statistically significant, as a bad situation in the country reduces investors' confidence. It particularly harms emerging economies, where institutions may be weak.

Conclusion

The purpose is to examine the effects of macroeconomic factors on the SR of the 7 top emerging economies from 2000 to 2023. Prior studies have extensively examined the effects of macroeconomic variables on SR in developed countries. Relatively fewer studies have been considered for emerging economies, and most research has been limited to individual-country analysis. There was an opportunity to investigate the effects of macroeconomic factors on SR across a group of emerging countries using a panel study. Previous studies support the empirical results of this study for E7 economies. Prior findings reveal both positive and negative relations, as well as significant and insignificant relations, between macroeconomic factors and SR. Empirical findings suggest that GDP, INF, and INR positively and significantly affect the stock returns of E7 countries, while the unemployment rate and Political instability negatively relate. However, EXR, FDI, and MS found it statistically insignificant. Results indicate that high GDP is a good indicator of potential SR and economic growth. Findings reveal a rise in the company's ability to pay dividends during inflationary periods, as profits increase, since people earn and spend more. However, stocks are used to hedge against inflation. In addition, unemployment lowers the SR, as a high unemployment rate leads to lower earnings and less spending, which decreases the company's profits and investors' confidence. Statistical instability is a significant factor influencing stock returns. The country's high instability shakes investor confidence, prompting withdrawals, which lower stock prices. As a result, research is of utmost importance for emerging economies.

Policy Implication

To fully realise the benefits of the stock market, policymakers must implement specific policies. Governments of emerging countries should focus on maintaining economic growth by developing policies that increase GDP. Policy makers should support a stable inflation rate to avoid market volatility, as excessively high or low inflation hinders economic growth, erodes purchasing power, and discourages spending. The Government must take measures to improve governance and the rule of law, and to avoid political conflict, which may enhance investor confidence.

Future Directions

Investors' sentiment and speculative behaviour are not captured by traditional macroeconomic factors. Future researchers may employ other analytical methods and incorporate additional variables, such as oil and gold prices, government debt, and trade openness. Future studies can examine the effects of recent crises, such as the India-Pakistan conflict and the UK rain war, to determine how macrofactors affect psychological stress.

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