DRIVERS OF STOCK MARKET PERFORMANCE AND A COMPARATIVE INVESTIGATION OF MARKETS: A CASE STUDY OF THE STOCK MARKET IN MALAWI

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ABSTRACT

This study investigated the influence of various drivers on the performance of stock markets in Malawi using a case study approach. Stock markets involve strategic collaborations between small and large companies to achieve their goals. This paper aimed to explore the correlation between stock market performance drivers and the performance of companies in Malawi. A mixed-method approach was employed, incorporating both quantitative and qualitative methods. The quantitative approach analyzed the financial aspects of stock market initiatives through financial reports, such as those from the Malawi Stock Exchange. Meanwhile, the qualitative approach collected data through interviews with key stakeholders. The findings indicated a positive outlook for stock market expansion, provided that awareness campaigns among the general public were intensified. The study also revealed that if banks offered tailor-made loans to individuals and companies seeking to acquire shares, the stock market would experience growth. Drivers of stock market performance significantly enhanced market performance, increased stock prices, and improved customer purchasing power. Despite these benefits, the study identified challenges, such as a lack of knowledge about shares, which hindered stock market growth. Other challenges included inflation, harsh loan conditions, and stock/share infringements, all of which negatively impacted market performance. To address these issues, stock markets implemented awareness and marketing initiatives to combat illiteracy and other barriers, aiming to expand their customer base. However, despite the significant benefits of these initiatives, limited research existed on the impact of stock market performance drivers, particularly on stock-listed companies in Malawi. This gap prompted the researcher to evaluate the influence of metrics such as stock growth and customer acquisition.

Keywords: Stock Markets, Malawi Stock Exchange, Market Performance, Strategic Collaborations, Stock Prices, Customer Purchasing Power.

INTRODUCTION

In the 21st century, as business landscapes continuously evolve, many markets face numerous challenges that significantly impact their performance. Stock markets, in particular, have had to implement various strategies to maintain their relevance and competitive edge within their respective industries (Dhingra et al., 2024). These strategies involve innovation, technological advancements, and collaborations with key stakeholders to adapt to changing market conditions. The stock business sector in Malawi has not been immune to these challenges. Historically, the Malawian stock market has been relatively underdeveloped compared to those in more established economies (Karanasos et al., 2022). Established in 1996, the Malawi Stock Exchange (MSE) was created to facilitate capital formation and provide an investment platform for both local and international investors. However, the market has faced several hurdles that have impeded its growth and performance. One significant challenge has been the limited number of listed companies, which restricts the diversity of investment opportunities available to potential investors. This has been compounded by a lack of public awareness and understanding of stock market operations, leading to low investor participation. Additionally, economic instability, high inflation rates, and fluctuating interest rates have deterred both local and foreign investments, further stifling the growth of the stock market (Regev & Tavor, 2024). In response to these challenges, the Malawian stock markets have sought to collaborate with money-lending institutions, investment firms, and other relevant stakeholders. These partnerships are aimed at pooling resources, sharing expertise, and creating synergies that enhance the overall performance and appeal of the stock market. By fostering these collaborations, the Malawian stock sector aims to strengthen its competitive advantage, attract more investors, and ultimately improve its resilience in an increasingly complex and dynamic financial environment. Despite the hurdles, these efforts are crucial for positioning the Malawi Stock Exchange as a viable platform for economic growth and development in the country.

1. Objectives of the Study

The primary objective of this study is to investigate the key drivers influencing the performance of stock markets, with a specific focus on the Malawi Stock Exchange (MSE). This study aims to identify and analyze the internal and external factors that impact the MSE's performance, including economic policies, investor behavior, market structure, and global financial trends. Additionally, the study seeks to conduct a comparative analysis of Malawi's stock market with other emerging markets to highlight unique challenges and opportunities (Pagnottoni et al., 2022).

Another key objective is to explore the role of partnership marketing in enhancing the visibility and performance of the MSE. By examining how collaborations with financial institutions, fintech companies, and other stakeholders can drive market participation and growth, the study aims to provide actionable insights for improving the competitiveness of the MSE.

The study also aims to contribute to the broader understanding of stock market dynamics in developing economies. Through a combination of quantitative and qualitative analysis, the study seeks to offer recommendations for policymakers, market regulators, and investors on how to strengthen the resilience and attractiveness of the MSE in a rapidly changing global financial landscape. Ultimately, the goal is to provide a comprehensive framework for enhancing stock market performance in Malawi (Kumar & Patel, 2023).

2. Literature Review

Several theories have been proposed to explain the drivers of stock market performance. Key among them is the Efficient Market Hypothesis (EMH), which posits that stock prices fully reflect all available information. This theory suggests that it is impossible to consistently achieve higher returns than the overall market without taking on additional risk. However, behavioral finance challenges this notion, arguing that psychological factors and cognitive biases can lead to market inefficiencies.

Other significant theories include the Arbitrage Pricing Theory (APT) and the Capital Asset Pricing Model (CAPM). APT suggests that multiple factors, such as macroeconomic variables and company-specific factors, influence stock returns. CAPM, on the other hand, emphasizes the relationship between the expected return of an asset and its risk, measured by beta.

Economic indicators play a crucial role in driving stock market performance. Inflation rates, interest rates, GDP growth, and unemployment rates are among the key metrics that investors monitor to gauge the health of an economy. Fama (1981) and Schwert (1990) have shown that these indicators significantly influence stock prices.

For instance, high inflation erodes purchasing power and corporate profits, leading to a decline in stock prices. Conversely, low interest rates can spur investment and consumer spending, positively impacting stock markets. Understanding these relationships helps investors make informed decisions and policymakers craft appropriate economic policies.

Behavioral finance explores how psychological factors impact investor behavior and market outcomes. Herding behavior, overconfidence, loss aversion, and anchoring are some of the biases that can lead to irrational market movements. Shiller (2000) and Kahneman and Tversky (1979) have provided valuable insights into how these biases manifest in stock markets.

For example, during periods of market turmoil, investors exhibit herding behavior, leading to significant price swings. Overconfidence can result in excessive trading and risk-taking, potentially destabilizing markets. By understanding these behavioral patterns, market participants can better navigate the complexities of stock investing.

Partnership marketing is a strategic collaboration between two or more firms that helps each of them achieve their business goals. Also known as business alliance marketing, these objectives may include sharing knowledge, expertise, experiences, technologies, and other marketing efforts. Stock markets can engage in either short-term or long-term marketing alliances depending on what they aim to achieve from the collaboration.

The need for partnership collaboration arises when one market recognizes the strengths of another and how they can accomplish their objectives more effectively through the use of their market capabilities and strengths. Partnership marketing, distinct from a business partnership, focuses on mutual benefits without merging operations or ownership.

In the context of this study on the drivers of stock market performance, partnership marketing can be implemented as a strategic approach to enhance the reach, visibility, and overall impact of the Malawi Stock Exchange (MSE). Partnership marketing involves collaborations between the MSE and various financial institutions, investment firms, and relevant stakeholders to create mutually beneficial opportunities that can drive market performance.

2.1 Implementation Strategy

- *Collaborations with Financial Institutions:* The MSE can partner with banks, insurance companies, and microfinance institutions to promote stock market investments among their clients. For instance, financial institutions can offer bundled financial products that include stock market investments, thereby increasing the awareness and participation of retail investors in the stock market.
- *Educational Campaigns:* Joint educational initiatives between the MSE and academic institutions or non-governmental organizations can help demystify stock market operations for the general public. By leveraging the expertise and outreach capabilities of these partners, the MSE can build a more informed investor base, which is crucial for market stability and growth.
- *Co-Branding and Joint Promotions:* The MSE can engage in co-branding efforts with well-known financial entities or corporations to enhance its brand recognition and trustworthiness. Joint promotions, such as investment seminars or financial literacy programs, can be co-hosted to attract potential investors and stakeholders.
- *Technological Partnerships:* Collaborations with fintech companies can facilitate the development of innovative trading platforms or mobile applications that make stock trading more accessible to a broader audience. Such partnerships can also introduce new technological solutions that enhance market efficiency and transparency.
- *Research and Development Collaborations:* Partnering with research institutions can help the MSE stay ahead of market trends and emerging challenges. Collaborative research can lead to the development of new financial products or services that cater to the evolving needs of investors, thereby boosting market performance.

By strategically implementing partnership marketing, the MSE can leverage the strengths of its partners to overcome existing challenges, attract more investors, and ultimately drive the performance of the stock market in Malawi.

3. Research Methodology

The study employed a mixed-methods approach, combining both qualitative and quantitative research techniques to thoroughly investigate the factors driving stock market performance in Malawi. The research philosophy was grounded in pragmatism, allowing for flexibility in choosing the most appropriate methods to address the research questions. The design of the study included both descriptive and explanatory components, with the descriptive aspect providing a detailed account of the Malawi Stock Exchange's (MSE) history, structure, and operations, while the explanatory component sought to identify and analyze the key factors influencing its performance.

Primary data were collected through interviews with key stakeholders, including officials from the Malawi Stock Exchange, the Reserve Bank of Malawi, and investment firms. Secondary data were gathered from official reports, academic journals, and financial records (Davis et al., 2020). Data analysis was carried out using both statistical techniques for quantitative data and thematic analysis for qualitative data.

4. Results and Discussion

Data was collected through a questionnaire as a primary source of data collection, and secondary data was collected from stock market stakeholders relevant to this study.

Figure 1 shows the stock markets on market performance.

SMEs (44%): The largest category represented, suggesting that almost half of the respondents or subjects are from small and medium enterprises. The high percentage of SMEs could reflect the importance and prevalence of small and medium enterprises in the relevant economic sector. This dominance might indicate that SMEs are a critical focus area for policies, support programs, or studies related to business

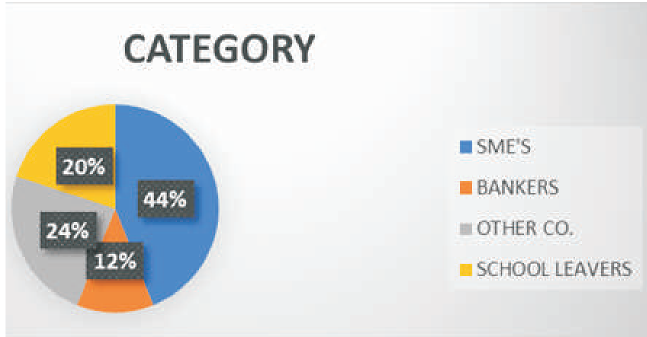

Figure 1. Stock Markets on Market Performance

development, financial management, or workforce engagement (Al-Haddad et al., 2019).

Other Companies (24%): The second-largest group, indicating that nearly a quarter of the respondents or subjects belong to companies that do not fall under the categories of SMEs, bankers, or school leavers (Al-Haddad et al., 2019). This group represents a significant portion of the data and highlights the diversity of business entities involved. The inclusion of a substantial percentage of other companies (24%) suggests a diverse representation of different business types. This diversity is important for obtaining a comprehensive understanding of the sector or issue being studied, as it ensures that perspectives from various types of organizations are included.

School Leavers (20%): A notable segment, showing that one-fifth of the respondents are school graduates. This could highlight the involvement or perspectives of young individuals who are newly entering the workforce or considering their future career paths. The significant percentage of school leavers (20%) highlights the role and perspectives of young individuals who are newly entering the workforce. This could be important for understanding trends in employment, education-to-work transition, or the needs and expectations of young professionals.

Bankers (12%): The smallest category in Figure 1 makes up over one-tenth of the respondents. Despite being the smallest group, the inclusion of bankers suggests an interest in or relevance of this professional group in the context of your study. Although the bankers category is the smallest (12%), their inclusion can provide valuable insights into the financial sector's role, challenges, and contributions. Understanding the banking sector's perspective can be crucial, especially in studies related to finance, investment, or economic development.

The dominance of SMEs might suggest the need for tailored policies and support programs to foster their growth and address their specific challenges (Al-Haddad et al., 2019). The significant presence of school leavers indicates a need for strategies to effectively integrate young professionals into the workforce, possibly through training, mentorship, or career guidance programs. The diverse representation of companies, including bankers, can help in developing a holistic view of the industry or sector being studied, leading to more informed decision-making and strategic planning.

Figure 2 shows the stock market growth. The frequency bar for "strongly agree" indicates a moderate number of respondents in this category. The percentage bar is significantly higher, suggesting that a large proportion of the respondents strongly agree with the statement about stock market growth. This indicates a strong consensus or majority opinion in favor of this sentiment.

The frequency bar for "agree" shows a lower number of respondents compared to "strongly agree." Similarly, the percentage bar for "agree" is lower than that for "strongly agree," indicating that fewer respondents agree (as opposed to strongly agree) with the statement about stock market growth. The chart shows a strong consensus among respondents who "strongly agree" with the statement about stock market growth, as evidenced by the high percentage. This suggests a significant level of confidence or positive perception of the stock market's growth among a majority of respondents. The lower frequency and percentage of respondents who "agree" (as opposed to strongly agree) indicate that while there is still a positive perception of stock market growth, it is not as strong as the sentiment expressed by those who strongly agree, which is relevant to this study.

The high percentage of strong agreement may reflect a generally optimistic view of the stock market's performance (Lee et al., 2022). This could be based on trends, economic policies, or other factors that positively influence market growth. The strong agreement might also suggest high confidence levels among investors and stakeholders, potentially leading to increased investment activities. For policymakers and financial analysts, understanding the strong positive sentiment can help in shaping future strategies and policies to support and sustain stock market growth.

5. Major Findings

This paper focused on evaluating the impact of various drivers of stock market performance using a comparative analysis of different markets. The study confirmed a significant relationship between market performance

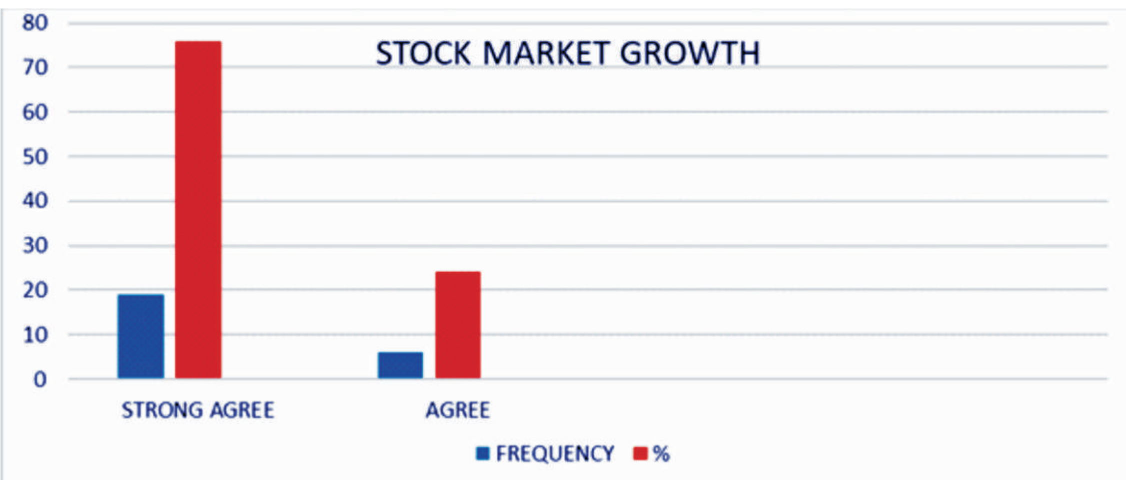

Figure 2. Stock Markets Growth

and factors such as market growth, customer acquisition, and stock awareness. This study demonstrated that the effective implementation of stock market strategies could increase the number of participants in the industry. It became evident that strategies like raising awareness about stock markets had a positive impact on organizations. Additionally, the study revealed that the introduction of stock or share loans by the National Bank had proven to be the most effective stock market strategy. The implementation of this strategy was projected to yield significant outcomes (Aljifri, 2023).

This study was of paramount importance as it provided valuable insights that could be incorporated into future stock market strategies. It also offered a framework that could be applied to similar markets within the industry.

6. Suggestions and Recommendations

The study has proven that stock market initiatives are effective in improving stock market performance, so relevant stakeholders such as the Malawi Stock Exchange (MSE) should provide regular workshops and interface meetings with the public and companies on how to participate in the stock market (Giglio et al., 2023).

The government, through the Malawi Stock Exchange (MSE), should handle their stakeholders with utmost care by softening stock policies in order to increase the market size. Malawi Stock Exchange (MSE) should engage more in the stock industry, as they have proven to be beneficial. Being the only stock market providers, there is a need to partner with other stakeholders in order to achieve objectives that they could not if they were to implement them by themselves. Additionally, they should formulate a comprehensive partnership strategy that they should always follow when they want to engage with other stakeholders. The strategy should have clear goals, objectives, and what is expected from all stakeholders on the market. This will encourage more participants to participate on the stock market.

Conclusion

This study has shed light on the significant impacts of drivers on stock market performance. The findings prove that stock market strategies such as soft asset collateral and awareness. Campaigns and government policies can improve markets performance, such as market growth, customer acquisition, and emerging more listing companies. The implementation of stock marketing initiatives can bring benefits such as an increase in more players. It should also be noted that challenges such as misalignment of objectives, unstable economic environment, and lack of knowledge that are to be fulfilled through stock market initiatives will make the stock markets grow and conducive to many new and old players on the market. This in turn will allow more players to invest their money in stocks, and this will make our country improve economically. Ultimately, addressing the challenges posed by drivers of stock markets can greatly improve the overall stock market performance. Failure to do so can be detrimental for the stock market, as the implementation of stock marketing strategies needs to be carefully considered.

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