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POLITICAL REGIME AND STOCK MARKET PERFORMANCE: EVIDENCE FROM NIGERIA (1985-2018)

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The extent of stock market performance cannot be dissociated from the political environment in which it is operating. This reality has motivated a plethora of studies on the relationship between political system and stock market performance in both developed and developing countries, with the political experience and stock market performance in developing countries not akin to that of developed countries.

In light of this, this study conducts an in-depth analysis of stock market performance under the military regime and the civilian regime in Nigeria. Monthly data that covers the period from 1985 to 2018 is used for the implementation of our objective. Using a standard robust regression, we generally find that the stock market performs better under the civilian regime than the military regime.

However, accounting for inflation and stock market volatility undermines the gains in the stock market under the civilian regime and almost swing the gains in favour of the military regime. The political regime becomes irrelevant when we control for other macroeconomic factors (exchange rate, money supply, output and inflation) determining stock market performance.

Given our findings, we advocate for implementation of policy interventions and regular supervision of the market activity to stem the tide of stock market volatility either caused by external or internal shocks.

Keywords: Military Regime, Civilian Regime, Stock Market Performance

JEL Classification: E42; E44; G12

1.0. Introduction

The socioeconomic and political environment in which the capital market operates cannot be dissociated from its performance. Consequently, economists and political scientists have long been interested in examining the connection between the political environment and stock market performance in different countries (see Wisniewski, 2016). Though arguably, the financial market is expected to be efficient as suggested by financial market efficiency hypothesis (Fama, 1965), however, information, news, political incidents and natural disasters outside the revealed firm's information play an indispensable role in determining the efficiency of the stock market and its overall performance. Stock market performance is one of the indicators to judge the soundness of an economy. Other indicators include exchange rate movement, inflation rate, unemployment rate, economic growth (GDP growth rate) and lots more. Some authors believe that among these indicators, the performance of the stock market as shown by its price is the most common because it enjoys media coverage (Television, Radio, Newspapers) on daily, weekly and monthly basis (Döpke and Pierdzioch 2006).

Given the apparent connection between the political system or environment and stock market performance, some strands of studies have been conducted to examine how the political system or party in power has shaped the stock market performance. However, most of these studies focus on advanced economies and emerging economies with little empirical studies on developing countries. In fact, most of the empirical studies on advanced countries focus on democratic related political issues (party in power) and stock market performance. The researchers focus on such issues because advanced countries such as the US and the UK have never had any sort of military interregnum in their political process. This cannot be said of developing countries of African and Asian extractions. In most of the countries in the developing world, in the past, hardly would a political dispensation finish without military interventions. The main reason for the military intervention in the political process is often premised on the claim to sanitise and

reinstate orderliness in a country. The military usually accuses the political government of corruption, recklessness, and ineptitude in the handling of the economy (see Civilize Wongchoti and Young 2015). However, such military intervention in politics is believed to be dangerous to the economy. May, Lawson and Selochan (2004) assert that interregnum of the military in politics harms business activities and economic growth and suppresses the freedom of association. In other words, the credibility of a country is usually damaged in the international community and this often affects the concerned country in its relationship with other countries. Aside from this, the mean through which military intervenes in the economy, most of the times through coup d'etat, signals the presence of political instability in the country. Consequently, prospective investors are often scared of investing in a country characterised by political instability. Thus, the intervention of the military in politics drives investors away and thereby harms business activities and the stock market.

Nigeria is one of the countries in the world that has had its shares of military interventions in its political development or evolvement. In fact, since its independence in 1960, the military had intervened for at least six times and had ruled for more than 30 years (George, Amujo and Cornelius, 2012). The first military intervention occurred on January 16th, 1966 by Major General Johnson Aguiyi-Ironsi shortly after the independence. Another coup d'etat was staged by some soldiers of Northern extraction on July 29th, 1966, leading to the assumption of office by Major General Yakubu Gowon as the Head of State on August 1st, 1966. On July 29th, 1975, General Yakubu Gowon was toppled in another coup d'etat by General Murtala Mohammed. General Murtala Mohammed was, however, assassinated by Lt. Col. Buka Suka Dimka on February 13th, 1976. Due to the failure of the coup, the Deputy Head of State to General Murtala Mohammed, General Olusegun Obasanjo took over as a substantial Head of State and ruled until October 1st, 1979 when he handed over the power to an elected President in the second republic, President Shehu Shagari. The civilian regime continued until 1983, when another coup was staged which led to the overthrown of the civilian

rule. The coup was led by General Muhammadu Buhari. Thus, General Buhari came to power on December 31st, 1983. His regime was overthrown in a palace coup staged by General Ibrahim Badamasi Babangida on August 27th, 1985. After many political imbroglios, General Babangida handed power over to Ernest Shonekan on August 26th, 1993.[1] Ernest Shonekan's interim government was short-lived as he was overthrown by General Sani Abachi on November 17th, 1993. When General Abacha suddenly died on June 8th, 1998, General Abdulsalami Abubakar succeeded him. General Abubakar was in office until May 29th, 1999 when he handed over the power to the elected civilian president, General Olusegun Obasanjo.

Despite the evidence of military intervention in the politics in Nigeria, a well-structured empirical study on how such intervention affects the economy. particularly, stock market performance has not been conducted. However, the data on stock market returns reveals the stock returns are higher during the civilian regime than the military regime in Nigeria. Between 1985 and 1999 (May 1999), that is, during the period of the military regime, stock market return stood, on average, at 3.53% while between 1999 and 2018, during the currently democratic dispensation (Fourth Republic), the stock market returns, on average, stood at 5.25%. Thus, it is expedient to empirically verify how the military regime vis-à-vis the civilian regime has affected the stock market returns in Nigeria. This can be executed in two ways. First, one can include both the periods of military rule and civilian rule in the regression model without including constant. Second, one can specify a regression model with constant in which the independent variable is either the period of military rule or civilian rule. This is usually done in an empirical study to avoid the problem of collinearity. The dummy variable would be used to capture the periods of military rule and civilian rule. The period of military rule is assigned zero while the period of civilian rule is assigned 1. Following the study by Civilize, Wongchoti and Young (2015), we account for the effect of proxy-effect

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[1] *The third republic was truncated after the annulment of June 12th, 1993 election which was assumed to be won by business mogul M.K.O Abiola.*

which distinguishes the impact of one political party from another political party. It is believed that the greater returns for either of the political party might be attributed to business or economic cycle fluctuations. Hence, to account for business or economic cycle fluctuations, researchers usually adopt the use of the treasury bill rate. Thus, our second analysis involves the incorporation of the treasury bill rate, a measure of business or economic cycle fluctuations, in our regression model. This approach is first used by Santa-Clara and Valkanov (2003) and thereafter by Civilize, Wongchoti and Young (2015). In the third analysis, still following the argument in the literature, some scholars believe that the difference in the stock market returns during different political regimes could be attributed to financial market volatility (Cahan, et al. 2005). Given this, the absolute value of the stock market return is usually regressed on the military and civilian rule dummies. This method has also been adopted by Civilize, Wongchoti and Young (2015). Thus, we investigate their conjuncture in the context of Nigeria's system of government. For robustness, we conduct this analysis using nominal and real stock market returns. This is an additional contribution to the existing studies. For instance, Civilize, Wongchoti and Young (2015) used only real stock market returns when examining the relationship between military rule and stock market performance for some emerging market countries.

Given this introduction, the rest of the study is structured as follows: sector 2 reviews briefly the extant studies. Section 3 focuses on methodology, data sources and description. Section 4 presents empirical findings while section 5 concludes with policy implication.

2.0. Literature Review

A huge body of studies has been conducted theoretically and empirically to examine the relationship between political development and stock market valuation or performance (for an extensive review of studies see Wisniewski, 2016).

In this study, we briefly review some theoretical links and empirical evidence on the nexus between the political system and stock market performance.

2.1. Theoretical Review

Different theories have been used to predict or explain the behaviour of stock market prices and returns. Among these theories is the chartist theory, which according to Fama (1965, pp. 34), posits that the past value of stock prices possesses enough information to predict the future behaviour of stock prices and expected gains. The chartists rely on the drawing of a chart to predict the future behaviour of stock market prices and returns from the historical behaviour of the stock prices. The chartist theory is also known as technical analysis theory. However, another theory, known as random walk theory, opposes the chartist theory by stipulating that the current behaviour of stock market prices is independent of the past behaviour of stock market prices. In other words, it states that the consecutive changes in the prices of stocks are not predictable based on the past prices but follow independently and identically distributed random numbers (Fama, 1965, Malkiel and Fama, 1970). This implies that the prices just follow a random walk and have no memory (Chandra, 2005). The practical implication of the random walk theory is that it is practically impossible for investors to beat the market without incurring some sort of risks. These two theories about the behaviour of stock market prices form the foundation upon which the efficient market hypothesis is built. The efficient market hypothesis stipulates that the relevant information about the stock market is reflected in the prices of the stocks (Dimson and Mussavian,1998). Thus, all pieces of information in the market are available to both the stock buyers and stock sellers so that none of them dominates the market. In other words, it is impossible for any investor to buy undervalued stocks or to sell inflated stocks. Three types of efficient market hypothesis have been documented in the literature and they include weak efficient market hypothesis (WEMH), semi-strong efficiency market hypothesis (SSEMF) and strong efficient market hypothesis (SEMH). Briefly, WEMH states that

stock prices reveal all the relevant information existing in trading data, particularly from the past prices and trading volume data (Udoka and Ibor, 2014). SSEMF stipulates that the current share prices reflect all publicly available information such as the information in the annual account, press release and other sources. SEMF submits that all information, either public or not, is reflected in the current prices of stocks. Thus, no other analysis is further required to help an investor to get advantage ahead of others in the market (for more on theories of the stock market see Udoka and Ibor, 2014).

Outside the above theories, some strands of theories have been proposed, especially in the face of socioeconomic and political events, to explain the performance of the stock market. One of these theories is the Partisan Theory propounded by Hibbs (1977, 1992). The partisan theory states that political parties have electoral desires to put in place the policies that would favour their core constituencies (Hibbs, 1992). In other words, the economic policies and outcomes rest on the shoulder of a political party in power and this can be used to favour the party. The theory has been used to explain the presidential puzzle as related to stock market performance. The main gist of the presidential puzzle is that, in the US, it is observed that stock market returns are usually higher during the Democrat Presidencies than during the Republican Presidencies (Johnson et al. 1999; Santa-Clara and Valkanov, 2003). The assertion is rationally supported by arguing that the two political parties pursue different economic policies. Democrat Party seems to pursue economic policies that often lead to a sound financial system compared to the Republican Party. Thus, voters' decision about a political party is often based on the historical state of the economy during that political regime.

Another theory that has been linked with the stock market performance is the political business cycle of Nordhaus (1975). The main augment here is that the incumbent government (president or party) usually embarks on the formulation and implementation of favourable economic policies that would have positive

effects on the economy towards the end of its tenure or close to the election period (third or fourth years). The purpose is to ward off some close contestants in the electioneering process. Thus, it was submitted that stock market returns are usually higher during the third and fourth years of an incumbent president than in the first and second years (Huang, 1985).

2.2. Empirical Review

In the empirical studies, the salient questions usually address are whether the political party in power and its ideology influences stock market performance or whether political cycle, that is, the period of electioneering process does have an influence on stock market evaluation or political uncertainty engineered by coup affects financial market performance. The answers to these questions have been provided in the sundries of studies conducted in Advanced countries and emerging market countries as well as some developing countries.

Beginning from the studies on the United States where there are abundant of studies on political party in power and stock market performance. This, notwithstanding, the empirical findings, at best, appear to be mixed. However, initial strands of studies suggest that stock market returns are higher during the regime of the Republican compared with the regime of the Democrats. In their study titled, '*the market prefers republicans: myth or reality*', Riley and Luksetich (1980) conclude that the victory of the Republicans usually brings a positive development to the stock market unlike the stock market response to Democrats' victory which is usually negative. Their finding has also been reinforced by the one documented by Snowberg, Wolfers and Zitzewitz (2007) who estimate the stock market returns to be around 2-3% in the night of and after the election when a Republican wins the election. Despite this, there are some strands of studies that have documented that stock market returns are usually looking good when the democrats win the election. Santa-Clara and Valkanov (2003), while investigating the myth surrounding the presidential puzzle, conclude that stock market returns

are higher under democrat's presidencies than the republican's presidencies. In specific term, they document that the stock markets are higher by 9% for the value-weighted and 16% for the equal-weighted portfolio under democrat's presidencies. They attribute their findings to the increased stock market returns and lower real interest rates during the Democrat's era in office. Some studies, however, show that stock market performance is independent of whether Democrats or Republicans are in the office. Huang (1985) submits that the difference in stock returns between the two political parties are statistically insignificant at least in four periods out of six periods examined. Powell, et al. (2007) question the conclusion arrived at by Santa-Clara and Valkanov (2003) and opine that the results may be due to data mining of regressors which seem to be highly persistent. Thus, such a highly persistent data is usually characterised by high autocorrelation which, most of the time, undermines the standard error of the regressors, making insignificant variables to be significant. In other words, data persistence often leads to spurious regression and biases in the empirical findings (see also Powell et al. 2009). Aside from this, Bonaparte (2020) examines the nexus between congressmen political background and stock market performance in the US. Analysed the data of 24 congress' characteristics, it is submitted that consideration of congress' characteristics is indispensable when examining the nexus between politics and finance.

Given the mixed empirical findings from the US, a lot of studies have been conducted in other advanced countries to test the presidential puzzle documented in the US studies. Instead of focusing on a specific country, Bohl and Gottschalk (2006) use the data of 15 countries including the US to examine the nexus between political cycle and stock market returns in 15 countries in a panel framework as well as individual country's analysis (the U.S., Canada, Australia, New Zealand, Japan, Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Norway, Sweden and the UK). Their results show that except in France, Hungary and the Czech Republic, democratic premium and the presidential cycle effect seem not to matter for stock market returns in other

countries. For the specific country studies, Hudson, Keasey and Dempsey (1998) study the behaviour of stock market prices over the post-war period and in reference to the election between Tory (Conservative Party) and Labour Party. Two distinctive empirical findings are documented. First, they find that stock market prices respond to the opinion polls that preceded the election and the election itself. Second, the stock market prices favour Tory's government than the Labour Party's government. In New Zealand and Australia, Anderson et al. (2008) investigate the link between ruling political parties and stock, property under the right-wing government and left-wing government and bond returns. Using the data that cover the period from 1910 to 2005 for Australia and from 1931 to 2005 for New Zealand, they find that stock markets do better under the right-leaning government than the left-leaning government, especially when the inflation is low.

While the studies reviewed above focused on developed countries, some empirical studies have also been conducted in developing and emerging countries. Most of the studies on developing countries, however, focus on the effect of political events on stock market performance. More specifically, some of the studies focus on the effect of military intervention in politics on financial market performance, especially the effect coup d'etat (Khanthavit, 2019; Rujirarangsan and Chancharat, 2019). On the other hand, some studies examine the effect of civilian rule (democracy) vis-à-vis military rule (dictatorship) (Civilize et al., 2015). Other studies investigate the impact of political instability on stock market performance (Malik, Hussain and Ahmed 2009; Irshad, 2017). Khanthavit (2019) studies the effect of a coup on the Thai Bond Market from 2006 to 2014. Using event study to chronologically examine the impact of the military coup on the Thai Bond Market, it is found that abnormal returns only react positively to a coup in 2014. On the other periods, there is no connection between the coup and the Thai Bond Market returns. Conversely, Rujirarangsan and Chancharat (2019) explore the role of the military coup in the relationship between the stock

market index and exchange rate in Thailand and find that stock market and exchange rate are affected in both the short-run and the long-run. On whether the stock market returns are higher under the military regime than under the civilian regime, Civilize et al. (2015) show that there is no evidence that military regime negatively affects the stock market performance in all the ten emerging economies examined. The stock market performed creditably under the military regime in countries such as Thailand and Pakistan. However, the impressive performance of the stock market cannot be explained by economic cycles, stock market cycles or the volatility in stock market returns. Podgorski (2020) investigates the stock market reaction to unexpected political change in Poland. Analysed 376 companies listed in the Polish stock market, he discovers that only state-owned enterprises controlled by the government are negatively and significantly affected by changes in political power in Poland. In India, Garg and Munir (2020) analyse the effect of general elections on the stock market performance of firms. Using different estimation techniques, they conclude that the election has a positive influence on the stock market returns of the firms.

We now turn to the review of scanty studies conducted on the subject matter in Africa and including Nigeria. Asongu (2012) verifies whether stock market performance is affected by the quality of government institutions in 14 Africa's countries. Using six indicators of quality of governance, he finds a positive effect of quality of government institutions on stock market performance in Africa. Ajide (2014) investigates the same phenomenon with a specific focus on Nigeria. His main findings show that control of corruption and government effectiveness exert a positive and significant effect on the stock market and vice versa for political instability. Aliyu and Aminu (2018) explore the effect of the economic regime and stock market performance in Nigeria using the Markov-switching model. Their summary of their results shows that adversely economic condition occasioned by exchange rate depreciation worsens stock market performance. While the studies reviewed on Africa so far examine the role of government institutions and

the economic regime in stock market performance, Asongu and Nwachukwu (2018) specifically examined the relationship between political regimes and stock market performance in 14 African countries between 1990 and 2010. Employing two-stage least squares as a method of estimation, they find that the stock market performs better in countries with political regime than the countries with the military regime. There are, however, two drawbacks from their study. First, the study used too short annual data which span only 20 years. Such a period may not be enough to examine in detail the stock market performance in some countries over their historical political dispensations. Second, making inference from a panel study could result in policy bias as the political experience of many African countries are not ditto. The incident that leads to changes in political leaders may differ from country to country. Aside from this, the dynamics of stock market movement in each country may be different from one another. It is, therefore, expedient to have country-specific studies to have a proper understanding of the link between the political regime and the dynamics of stock market performance in Africa. Hence, the need for this study.

3.0. Methodology, Data Sources and Description

3.1. Methodology

In this study, we examine the effect of military regime vis-à-vis the civilian regime on the stock market performance in Nigeria from 1985 to 2018. During this period, four military governments have been in power (General Buhari regime 1983-1985, General Ibrahim Badamasi Babangida 1985-1993, General Sani Abacha 1993-1998 and General Abdulsalami Abubakar 1998-1999) while five civilian governments have also been in power (Shehu Shagari 1979-1983, General Olusegun Obasanjo (1999-2007, Umaru Musa Yar'Adua/Goodluck Ebele Jonathan 2007-2011 Goodluck Ebele Jonathan 2011=2015 and Muhammadu Buhari 2015-present). We capture each period of the regime using a dummy variable. The period of military regime is assigned 0 while the period of the civilian regime is assigned 1. Following the extant studies such as Anderson, Malone and

Marshall (2008) and Civilize, et al. (2015), we specify equation 1 which shows the effect of the civilian rule on the stock market returns in Nigeria as follows:

$$r_t = \alpha_0 + \alpha_1 c_t + \varepsilon_t \tag{1}$$

Where r_t is the stock market return at t, c_t is the civilian dummy variable at t which is assigned 1 when the civilian government is in power, otherwise $c_t = 0$, ε_t is the error term at t. Suppose we assume that the civilian rule has no impact on stock market returns, α_1 would then be zero, otherwise, it could be a negative or positive value.

We can also determine the effect of the military regime on stock market returns. It is possible to assume that α_0 to be the coefficient whose value shows the effect of military rule. However, to distinguish the effect of a military regime from that of the civilian regime on stock market performance, equation 1 is re-specified as follows:

$$r_t = \phi_0 c_t + \phi_1 m_t + v_t \tag{2}$$

Where m_t denotes the military regime that is assigned dummy variable 0, otherwise 1. According to Civilize, et al. (2015), if the null hypothesis of no difference between the effect of the military regime and civilian regime is valid, the values of the coefficient parameters should be as $\phi_1 = \phi_2$. In other words, both coefficient values are the same.

As argued in the introduction section, it is assumed that the difference in stock market returns between two political parties or between two regimes (military-civilian and civilian rule) could be driven by the proxy effect which is as a result of business or economic fluctuation. To account for this effect, several studies have used short-term interest rate usually proxied by 90-day treasury bill rate (see Santa-Clara and Valkanov, 2003; Civilize, et al. 2015), we follow these existing studies and incorporate treasury bill rate into equation 2 to have equation 3 as follows:

$$r_t = \phi_0 c_t + \phi_1 m_t + \phi_3 tb_t + v_t \qquad\qquad (3)$$

tb_t denotes treasury bill rate at the time t

Furthermore, it has also been argued that the difference between the stock market returns between two regimes could be driven by financial market volatility (see Cahan, et al. 2005 and Civilize et al. 2015). Following Civilize, et al. (2015), we also examine whether the difference in stock market returns between the military regime and the civilian regime is driven by stock market return volatility or fluctuation. This suggests that by removing stock market volatility, the distinctive effect of the military regime and civilian regime may be negligible. The stock market volatility could be removed by computing the absolute value of the stock market return. Given this, we regress the absolute value of stock market returns on the dummy variables of the military regime and civilian regime. Given this, equation 4 is specified as follows:

$$\left| r_t \right| = \phi_0 c_t + \phi_1 m_t + v_t \qquad\qquad (4)$$

Lastly, we also want to examine the effects of other variables that affect stock market returns. There are abundant of studies that have been conducted on determinants of stock market returns (see Ho and Iyke, 2017 for detailed review). Factors such as economic growth, level of economic development, interest rate, investment or capital flow, trade openness, exchange rate, money supply, inflation rate, level of financial market integration and so on. We concentrate on the macroeconomic factors that influence the stock market return in Nigeria. Our goal is to examine whether the inclusion of these variables in equation 2 could lead to crowding out of the impact of any of regimes on stock market return. We, therefore, re-specified equation 2 as follows:

$$r_t = \phi_0 c_t + \phi_1 m_t + \phi^{'} X + v_t \qquad\qquad (5)$$

Where X represents other factors, which include consumer price index, nominal exchange rate, real exchange rate, industrial production index and treasury bill rate (90 days).

3.1. Data Sources and Description

We make use of monthly data which consists of 408 observations from January 1985 to December 2018. The data used include all share index (nominal and real) from which stock market returns are computed, 90 days treasury bill rate, a measure of interest rate, nominal and real exchange rate, consumer price index, industrial production index, money supply (broad money, M2) and the US consumer price index. Since our aim in this study is to examine the effect of either civilian regime or military regime on stock returns in Nigeria, we use a dummy variable to represent each regime. We assign 1 for the period of the military regime and 0 for the period of the civilian regime. All share index, consumer price index, treasury bill rate, money supply and exchange rate are sourced from the Central Bank of Nigeria database, industrial production index is extracted from the Central Bank of Nigeria and International Financial Statistics and the US CPI is obtained from St Louis Federal Reserve database. Following Kwofie and Ansah (2018), stock market returns are computed by using this formula $r_t = {asi_t - asi_{t-1}}/{asi_{t-1}} * 100$ where asi_t is the share price in the current period, asi_{t-1} denotes the share price in the past. The real share price is computed by dividing the nominal share value by the consumer price index (asi / cpi). The real exchange rate is also calculated by using this formula $rexrate = nextrate * {Domestic \, Price}/{Foreign \, Price}$ where $rexrate$ denotes real exchange rate, $nexrate$ denotes nominal exchange rate, the domestic price is proxied by Nigeria consumer price index and the foreign price is represented by the US consumer price index. Nominal and real share prices, nominal and real exchange rate, consumer price index and industrial production index are naturally logged.

Table 1 presents the summary statistics of the variables. All share index is one of the indicators used to measure the performance of the stock market. As revealed in Table 1, average all share index over the period under consideration stood 16,202.170 with the minimum index of 111.300 and the maximum index 65,665.380. This suggests that the stock market has been growing over the period. However, if we take into consideration inflation, we see that the gain from the growth of the stock market has been eroded due to a persistent rise in inflation. Consequently, the average real all share price stood at 239.670 which ranges from 95.427 to 828.242. Evidence from the computation of stock market returns shows that the stock market returns have been volatile. This is shown by the values of standard deviation for nominal and real all share price index which are widely dispersed from their means. The values of the mean and standard deviation of nominal stock market returns stood at 1.188 and 6.221while those of real stock market returns stood at -0.219 and 6.435 respectively.

Figure 1 presents the trend of nominal and real stock market prices (all share price index-ASPI) and returns (computed from ASPI) over the period under consideration. A closer look at the trend shows that nominal stock market price (NSMP) and real stock market price (RSMP) have been rising over time with little evidence of fluctuations. However, there was a sudden decline in ASPI around 2008. This cannot but be attributed to the Global Financial Crisis (GFC) which occurred between 2007 and 2009. Since the impact of GFC on the stock market, the market price has continued to fluctuate. Though it has been risen steady, most of the time, it has also been experiencing some sorts of fluctuations. This is evidence from the graphs of nominal stock market return (NSMR) and real stock market return (RSMR). Three significant periods of stock returns fluctuations can be identified in the graphs. The first period is around 1990, the period which preceded the 1991 economic recession in Nigeria. In the 1990s. The second period coincided with the period the country returned to democracy after many years of military ruling. The significant spike in stock market prices (returns) around this period could be alluded to investors' enthusiasm to invest in Nigeria. It has been

argued that the military regime often sends a wrong signal to investors, thereby driving them away from investing in the country perceived to be politically unstable. This might be the situation that played out during the period of military rule. A third of fluctuation of stock market returns occurred around the period of the GFC. Stock market returns suffered a higher level of fluctuation compared with the aforementioned periods.

Table 1: Descriptive Statistics Analysis

Variables	Obs	Mean	Std.Dev.	Min	Max	p1	p99	Skew.	Kurt.
asi	408	16202.170	15444.920	111.300	65652.380	116.300	57990.200	0.735	2.672
rasi	408	239.670	125.079	95.427	828.242	106.637	712.817	2.152	8.242
nreturn	407	1.188	6.221	-44.179	27.640	-19.761	16.869	-1.270	12.571
rreturn	407	-0.219	6.435	-44.965	26.306	-18.944	14.117	-0.936	9.970
anreturn	407	4.306	4.639	0.000	44.179	0.052	21.367	3.211	20.347
arreturn	407	4.523	4.576	0.030	44.965	0.061	20.800	3.070	20.507
tbr	408	12.321	4.859	1.040	28.185	2.159	27.899	0.648	4.373
cpi	408	68.183	71.341	0.871	274.575	0.883	266.185	1.131	3.367
exrate	408	99.012	85.778	0.820	309.730	0.892	306.402	0.730	3.040
rextrat	408	129.197	188.251	0.017	795.042	0.018	765.795	2.110	6.920
ipi	408	94.071	18.102	45.669	125.718	47.752	118.618	-0.754	2.962
m2	408	5922.919	7862.185	22.977	27712.19	23.884	25532.470	1.169	2.971

Source: Author's computation
Note: asi, rasi, nreturn, return, anreturn, arreturn, tbr, cpi, exrate, rextrat, ipi and m2 represent all share index, real oil share index, nominal stock return, real stock return, absolute nominal stock return, absolute real return, treasury bill rate, consumer price index, nominal exchange rate, real exchange rate, industrial production index and money supply respectively.

Figure 1: Trend of Nominal and Real ASPI and their Returns

ASPI denotes All Share Price Indexes
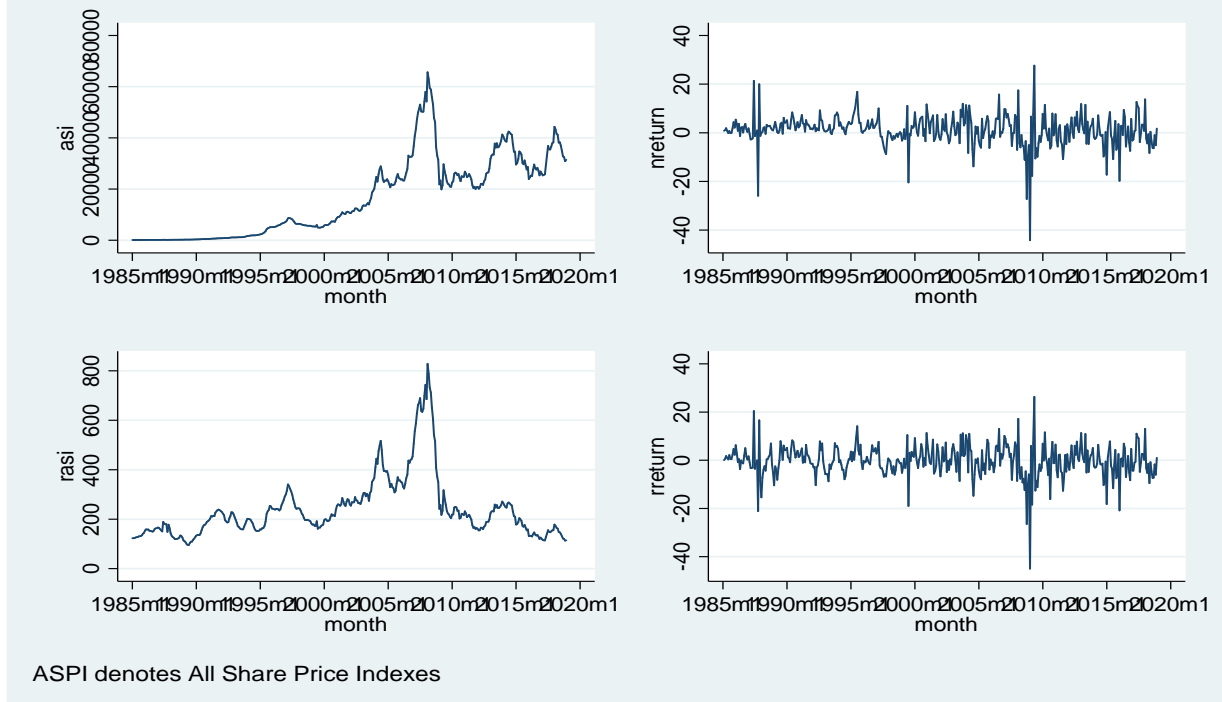
4.0. Presentation of Results

This section focuses on the presentation of the results estimated for models 1 to 4 as specified in the methodological section. However, we conduct a correlation analysis among the variables of interest. In an empirical study, a correlation analysis is often done for two purposes. First, it is to examine the degree of association between two or more variables. Second, it is to detect whether or not there is a problem of multicollinearity among the regressors. In this study, the correlation analysis is conducted on nominal and real variables. The results of the correlation analysis are presented in Table 2. From the table, it can be seen that the civilian regime has a positive and significant correlation with NSMP while the military regime has the opposite correlation with NSMP. Treasury bill rate also negatively correlates with NSMP. Nominal exchange rate, industrial production index, broad money and consumer price index have positive and significant

correlations with NSMP. Most of the other variables are moderately correlated with one another except industrial production index, broad money, CPI and the nominal exchange rate which are a bit highly correlated. Concerning the correlation between NSMR and other variables of interest, we discover that the civilian regime now has a negative and significant relationship with NSMR while the military regime now has a positive and significant correlation with NSMR. Similarly, the correlation between treasury bill rate and NSMR is positive and significant. In the same vein, nominal exchange rate, industrial production index, broad money as well as consumer production index have a significant negative correlation with NSMR.

As regards the correlation among the real variables, RSMP and civilian regime are positively correlated while it is negatively and significantly correlated with the military regime. The reverse is the case when we correlate RSMR with military and civilian regimes. Treasury bill rate has a negative and positive correlation with RSMP and RSMR respectively, however, the positive correlation between RSMR and treasury bill rate is not statistically significant. Real exchange rate, real broad money and consumer price index have a positive significant association with RSMR, while they have a negative correlation with RSMR but only real broad money is statistically significant. Industrial production index is negatively and significantly correlated with RSMP and positively and insignificantly correlated with RSMR. Apart from the correlation among industrial production index, broad money and consumer price index, the correlations among other variables are moderate.

Table 2: Correlation Analysis

Var.	All Share Price Index										Stock Market Returns							
	lasi	cdm	mdm	tbr	lexrat	lipi	lm2	lcpi			nret	cdm	mdm	tbr	lexrat	lipi	lm2	lcpi
lasi	1.000									nret	1.000							
cdm	0.840***	1.000								cdm	-0.129***	1.000						
mdm	-0.840***	-1.000	1.000							mdm	0.129***	-1.000	1.000					
tbr	-0.332***	-0.369***	0.369***	1.000						tbr	0.128**	-0.369***	0.369***	1.000				
lexrat	0.947***	0.876***	-0.876***	-0.186***	1.000					lexrat	-0.119**	0.876***	-0.876***	-0.186***	1.000			
lipi	0.896***	0.739***	-0.739***	-0.188***	0.897***	1.000				lipi	-0.095*	0.739***	-0.739***	-0.188***	0.897***	1.000		
lm2	0.950***	0.876***	-0.876***	-0.378***	0.938***	0.862***	1.000			lm2	-0.166***	0.876***	-0.876***	-0.378***	0.938***	0.862***	1.000	
lcpi	0.978****	0.836***	-0.836***	-0.312***	0.960***	0.876***	0.977***	1.000		lcpi	-0.145***	0.836***	-0.836***	-0.312***	0.960***	0.876***	0.977***	1.000
	lrasi	cdm	mdm	tbr	lrextrat	lripi	lrm2	lcpi			rret	cdm	mdm	tbr	lrextrat	lripi	lrm2	lcpi
lrasi	1.000									rret	1.000							
cdm	0.400***	1.000								cdm	-0.039	1.000						
mdm	-0.400***	-1.000	1.000							mdm	0.039	-1.000	1.000					
tbr	-0.231***	-0.369***	0.369***	1.000						tbr	0.060	-0.369***	0.369***	1.000				
lrextrat	0.377***	0.862***	-0.862***	-0.248***	1.000					lrextrat	-0.068	0.862***	-0.862***	-0.248***	1.000			
lripi	-0.333***	-0.833***	0.833***	0.324***	-0.983***	1.000				lripi	0.076	-0.833***	0.833***	0.324***	-0.983***	1.000		
lrm2	0.163***	0.800***	-0.800***	-0.463***	0.712***	-0.725***	1.000			lrm2	-0.114**	0.800***	0.800***	-0.463***	0.712***	-0.725***	1.000	
lcpi	0.359***	0.836***	-0.836***	-0.312***	0.990***	-0.998***	0.729***	1.000		lcpi	-0.074	0.836***	0.836***	-0.312***	0.990***	-0.998***	0.729***	1.000

Note: *** p<0.01, ** p<0.05, * p<0.1

Table 3 reports the results of the regression of models (1), (2) and (3). In the first model, we focus on the mean percentage change in NSMP under the civilian regime. This means we just regress NSMP on dummy variable of the civilian regime. By focusing on the mean percentage change in NSMP under the civilian regime, it is assumed that the mean percentage change in NSMP under the military regime is constant (see Civilize et al. 2015). However, the inference about the mean percentage change in NSMP during the military regime can be made from the model (1). To examine, therefore, the mean percentage change in NSMP under the civilian regime, we use a standard robust regression method which computes a robust standard error using Eicker-Huber-White heteroskedastic standard errors that account for heteroscedasticity in the data series. The purpose is to obtain consistent unbiased estimated results. From model (1), there is evidence that the stock market performs very well during the civilian regime as shown by the positive and significant coefficient of the civilian dummy. Although we focus on the civilian regime in the model (1), the inference can be made as regards to the performance of the stock market during the military regime. The value of the constant in the model 1 represents the mean percentage change in NSMP during the military regime. In other words, the actual mean percentage change in NSMP under the military regime is 6.800% (α_0) while the actual mean percentage change in NSMP under the civilian regime stood at 10.046% ($\alpha_0 + \alpha_1$). This inference is corroborated by the results obtained from model (2) when we suppress the constant and just run NSMP on the civilian dummy and military dummy. It can be seen that the mean percentage change in NSMP during the civilian regime is greater than during the military regime. The percentage difference in the mean percentage change in NSMP between the civilian regime and military regime is 3.346% ($\phi_0 - \phi_1$). In model (3), it is assumed that the difference in the mean percentage change in NSMP between the civilian regime and the military regime could be driven by proxy effect arising from business fluctuation or economic fluctuation. When modelling this kind of scenario, the treasury bill rate is usually incorporated into the model (2). This gives rise to the specification of the model (3). As shown in the table, we do not find the evidence that the difference in the mean percentage change in NSMP under the civilian regime and the military regime is driven by the proxy effect (business or economic fluctuation) because the coefficient of treasury bill rate is not statistically significant.

Table 3: Response of NASPI to Civilian Regime, Military Regime and Treasury Bill

Rate

	(Model 1) Iasi	(Model 2) Iasi	(Model 3) Lasi
cdm	3.246***	10.046***	10.155***
	(0.116)	8(0.038)	(0.104)
mdm		6.800***	6.946***
		(0.110)	(0.224)
tbr			-0.010
			(0.010)
_cons	6.800***		
	(0.110)		
Obs.	408	408	408
R-squared	0.705	0.986	0.986

Standard errors are in parenthesis
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

In table 4, the results of the mean percentage change in NSMR under the civilian regime and the military regime are presented. Evidence from the table shows that the mean percentage change in NSMR is higher under the military regime than the civilian regime as shown in Model (1) and Model (2). The difference in the mean percentage change in NSMR between the civilian regime and the military regime is -1.621%. This suggests that the stock market records more loss during the civilian regime than the military regime. Our finding is supported by the one documented by Civilize, et al. (2015) for some emerging economies such as Chile, Pakistan, South Korea, Thailand and Venezuela. Whether this loss of returns is driven by either business or economic fluctuation is examined in the model (3). Our results show that difference is somehow driven by business and economic fluctuation. It is on record that during the current civilian regime, the Nigerian economy witnessed some sorts of business and economic fluctuation compared with the periods of the military regime. For instance, during this current democratic dispensation, the GFC occurred between 2007 and 2009 and the economic recession occurred in the second quarter of 2016 until the second quarter of 2017. During the period of GFC, the Nigerian Stock Market experienced what can be called "business haemorrhage" as all share price index declined from 65,652.380 in the second month of 2008 to 19,851.890 in the third month of 2009. There are

some periods of declines in the share price index too during the economic downturn of 2016. The short period of the economic downturn that occurred in 1991 during the period of the military regime did not affect all share price index as the price was relatively stable and even steadily increasing during that period. In model (4), we take into cognizance whether the mean percentage change in NSMR is driven by the stock market volatility itself. To address this issue, we regress the absolute value of NSMR on the civilian dummy and the military dummy. In the absence of stock market volatility, the mean percentage change in NSMR is higher under the civilian regime than the military regime. This implies the stock market would have offered better returns during the civilian regime than during the military regime if not the excessive volatility that characterised the period of the civilian regime.

Table 4: Response of $NSMR$ to Civilian Regime and Military Regime

	(1) nreturn	(2) nreturn	(3) nreturn	(4) anreturn
cdm	-1.621***	0.503	-0.779	5.102***
	(0.577)	(0.470)	(1.060)	(0.333)
mdm		2.124***	0.407	3.220***
		(0.336)	(1.126)	(0.280)
tbr			0.119*	
			(0.072)	
_cons	2.124***			
	(0.336)			
Obs.	407	407	407	407
R-squared	0.017	0.051	0.058	0.485

Standard errors are in parenthesis
*** p<0.01, ** p<0.05, * p<0.1

Table 5 presents the mean percentage change in RSMP under the civilian regime and the military regime. The RSMP is computed by dividing nominal all share price index by consumer price index. As in the case of Model (1) for NSMP, the value of constant (α_0) in the Model (1) denotes the mean percentage change in RSMP during the military regime while the values of constant (α_0) and coefficient of the civilian dummy ($\alpha_0 + \alpha_1$) stand for the mean percentage change in RSMP during

the civilian regime. As shown in the model (2), the mean percentage change in RSMP under the civilian regime is higher than the mean percentage change in RSMP under the military regime. The difference in the mean percentage change in RSMP under the civilian regime and the military regime is 0.343%. When comparing the difference in the mean percentage change in NSMP under the civilian regime and military regime and that of RSMP, it is evidence that the mean percentage change in NSMP is greater than the mean percentage change in RSMP. This could be attributed to the inflation that was controlled for in RSMP. Therefore, inflation plays an indispensable role in determining the actual performance of the stock market. Contrary to what we obtained when we considered the NSMP, the difference in stock market performance under the civilian regime and the military can be adduced to business fluctuation or economic fluctuation. Such business fluctuation or economic fluctuation is potent enough to drive downwards the stock market performance in real terms.

Table 5: Response of RASPI under the Civilian Regime and the Military Regime

	(1) Irasi	(2) Irasi	(3) Irasi
Cdm	0.342***	5.525***	5.615***
	(0.036)	(0.030)	(0.051)
Mdm		5.182***	5.304***
		(0.021)	(0.055)
tbr			-0.008**
			(0.003)
_cons	5.182***		
	(0.021)		
Obs.	408	408	408
R-squared	0.160	0.995	0.995

Standard errors are in parenthesis
*** p<0.01, ** p<0.05, * p<0.1

The results of the mean percentage change in RSMR under the civilian and the military regime are presented in Table 6. The results show that even though that there is a slight difference between the RSMR under the civilian regime and under the military regime, such difference in real stock returns is not statistically significant and it is not driven by the proxy-effect- business fluctuation or

economic fluctuation as shown in models (1), (2) and (3). However, it is possible to see that the difference between the RSMR under the civilian regime and the military regime is driven by the stock market volatility itself as shown in the model (4). Absorbing the stock market volatility, the mean percentage change in RSMR under the civilian is greater than the mean percentage change in RSMR under the military regime. The difference in mean percentage change in RSMR between the two regimes is 1.726%.

Table 6: Response of RSMR to Civilian Regime and Military Regime

	(1) rreturn	(2) rreturn	(3) rreturn	(4) arreturn
cdm	-0.501	-0.430	-1.191	5.253***
	(0.610)	(0.478)	(1.144)	(0.334)
mdm		0.071	-0.948	3.527***
		(0.378)	(1.214)	(0.265)
tbr			0.071	
			(0.080)	
_cons	0.071			
	(0.378)			
Obs.	407	407	407	407
R-squared	0.001	0.003	0.005	0.512

Standard errors are in parenthesis
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

4.1 Robustness Check

In this section, we check the reliability of our findings by accounting for more factors that determine the stock market performance in models (1) and (2), that is the model with constant and the model without constant. We investigate the effects of other factors on both nominal and real stock market performance (NASPI and NSMR, RASPI and RSMR). The main purpose is to examine whether the performance of the stock market under different regimes matter if we control for other factors influencing stock market performance. Therefore, apart from the interest rate, we control for other variables such as nominal and real exchange rate, nominal and real broad money, nominal and real industrial production index and consumer price index. On a priori ground, the exchange rate can have a positive or a negative effect on stock market performance depending on the

position of domestic currency vis-à-vis of foreign currency. Ajayi And Mougouė (1996) cited by Dimitrova (2005) argue that depreciation of exchange rate would lead to a decline in stock market price and returns. A depreciation of domestic currency leads to a rise in inflation. When inflation rate increases, it erodes household's purchasing power and lowers the company's returns and thereby leads to a declining stock market price and returns. Similar, depreciation of exchange rate also leads to the high cost of imported raw materials and this raises the cost of production, a high cost of production, in turn, leads to increase in general price level and such as general rise in price level lower company earnings and profits and thus its market value and returns. The reverse is the case for an appreciation of the domestic currency. Thus, the exchange rate may have a positive or negative effect on the stock market price and returns. Arguably, the inflation rate is expected to hurt stock market price and returns (See Modigliani and Cohn 1979; Anari and Kolari, 2001).[2] The money supply is also expected to have a positive impact on stock market price and returns since the growth of money leads to a negative effect on the interest rate (see Osisanwo and Atanda, 2012). Economic growth, on a priori, is expected to have a positive effect on economic growth. Given these, a priori expectations about the control variables included in the models (1) and (2), the results of their effects on stock market price and returns are presented in Tables 7 and 8 for nominal and real stock market prices and returns respectively.

As shown in Table 7, controlling for the other factors affecting stock market performance, we find that the positive performance of the stock market in terms of price and returns under the civilian regime and the military regime have been neutralised. Percentage stock market price under the military regime and the civilian regime is now negative. Similarly, the percentage of stock market returns under both regimes are also negative. With regard to the control variables,

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[2] *It is important to state that some sorts of controversies also surround the theoretical relationship between inflation and stock market returns (see Neutrality-Effect Hypothesis Fisher (1930); Inflation Illusion Hypothesis-Modigliani and Cohn (1979); real after-tax hypothesis-Feldstein (1980); Proxy Effect Hypothesis-Fama (1981)*

treasury bill rate, nominal exchange rate and money supply have negative and significant effects on nominal stock market prices. This suggests that an increase in these variables would lower nominal stock market price. On the other hand, industrial production index has an a priori expectation on nominal stock market price. Surprisingly, we find a positive effect of inflation proxied by the natural logarithm of the consumer price index on the nominal stock market price. In the case of nominal stock market returns, most of the variables do not have significant impacts on nominal stock market returns except money supply that has a negative significant effect on nominal stock market returns. This result is not surprising especially the impact of money supply on nominal stock returns because an increase in money supply could lead to a high rate of inflation. Since an inverse relationship exists between inflation and stock market returns theoretically, the money supply would also have a negative influence on stock market return.

Similar results are also found when we regress real stock market price and return on real control variables. This suggests that whether we consider nominal variables or real variables, the impact of treasury bill rate, exchange rate, industrial production index, money supply and inflation on stock market price and return would remain unchanged.

Table 7: Regression results

	With Constant		Without Constant	
	lasi	nreturn	lasi	nreturn
cdm	0.758***	1.288	-0.867	-7.225
	(0.089)	(1.631)	(0.804)	(9.558)
mdm			-1.625*	-8.513
			(0.842)	(9.693)
tbr	-0.019***	0.050	-0.019***	0.050
	(0.004)	(0.099)	(0.004)	(0.099)
lexrate	-0.219***	0.066	-0.219***	0.066
	(0.062)	(1.053)	(0.062)	(1.053)
lipi	2.065***	3.736	2.065***	3.736
	(0.216)	(2.495)	(0.216)	(2.495)
lm2	-0.437***	-1.692**	-0.437***	-1.692**
	(0.038)	(0.831)	(0.038)	(0.831)
lcpi	1.416***	0.937	1.416***	0.937
	(0.057)	(1.394)	(0.057)	(1.394)
_cons	-1.625*	-8.513		

	(0.842)	(9.693)		
Obs.	408	407	408	407
R-squared	0.974	0.043	0.999	0.076

Standard errors are in parenthesis
*** p<0.01, ** p<0.05, * p<0.1

Table 8: Regression results

	With Constant		Without Constant	
	lrasi	rreturn	lrasi	rreturn
cdm	0.752***	4.416***	-1.482	-6.313
	(0.090)	(1.685)	(0.936)	(11.999)
mdm			-2.234**	-10.730
			(0.981)	(12.431)
tbr	-0.020***	0.065	-0.020***	0.065
	(0.004)	(0.107)	(0.004)	(0.107)
lrextrat	-0.210***	-1.498	-0.210***	-1.498
	(0.061)	(1.100)	(0.061)	(1.100)
lripi	2.031***	3.300	2.031***	3.300
	(0.210)	(2.673)	(0.210)	(2.673)
lrm2	-0.454***	-2.372***	-0.454***	-2.372***
	(0.040)	(0.885)	(0.040)	(0.885)
lcpi	2.192***	4.933	2.192***	4.933
	(0.268)	(3.580)	(0.268)	(3.580)
_cons	-2.234**	-10.730		
	(0.981)	(12.431)		
Obs.	408	407	408	407
R-squared	0.472	0.028	0.997	0.029

Standard errors are in parenthesis
*** p<0.01, ** p<0.05, * p<0.1

5.0. Conclusion and Policy Implications

It is a fact that Nigeria, as a country, has experienced several military interregna in the course of her political development and the effect of such military intervention on the Nigerian economy has not been empirically examined. However, it has been argued that military incursion in the political development of a country is detrimental to the business environment and economic growth and development in general. In light of this, our study conducts, first-hand, how the stock market performs under the civilian regime and the military regime. Following the extant studies, we examine several issues such as whether stock market performs better under the civilian regime than under the military regime,

whether the difference in stock market performance under each regime is driven by proxy effects such as business and economic fluctuations or by stock market volatility itself and whether if we incorporate other factors that serve as determinants of stock market performance, the effect of any of the regime would be relevant. To implement these objectives, we use nominal and real all share price indexes extracted from the Central Bank of Nigeria database. The data is monthly data which covers the period from 1985 to 2018. Two measures of stock market performance are used and they include all share price index (nominal and real terms) and stock market returns computed from all share price index (nominal and real return). We also use variables such as treasury bill rate, broad money (M2), exchange rate, industrial production index and consumer price index. The standard robust regression is deployed for estimation. The standard robust regression performs better than OLS regression in that it computes a robust standard error using Eicker-Huber-White heteroskedastic standard errors that account for heteroscedasticity in the data series. Also, robust standard regression takes care of outliers in the data generation process.

We find some interesting results from our study. Generally, it is discovered that the stock market performs better under civilian rule than under military rule. However, this significant performance under civilian rule is usually undermined by the excessive volatility that characterised the period of the civilian regime. For instance, during the civilian regime, the exchange rate was liberalised leading a significant jump in the exchange rate from around 21 ₦/$ to around 80 ₦/$ with a year. Also, during this current democratic era, the world witnessed the Great Financial Crisis that led to a loss in many stock markets in the world, including the Nigeria stock market. It is within this period that Nigeria experienced the economic recession caused by a sudden fall in the price of crude oil in the international market. All these events contribute to the erosion of gains in terms of returns in the stock market under civilian rule. We hardly find the evidence that supports the notion that difference in the stock market performance between the civilian regime and the military regime is driven by proxy effects such as business

and economic fluctuation with the country. However, we find the evidence that supports the argument that difference in stock market performance under the civilian regime and the military regime is driven by the stock market volatility itself. This suggests that return gained usually wanes when we account for inflation and stock market volatility. Accounting for other determinants of stock market performance such as inflation rate, exchange rate, broad money as well as industrial production index, the performance of stock market becomes independent of any regime, either the civilian and military regime.

Given our findings, the government should put in place policies, especially during this democratic era, to stem the tide of stock market volatility that affects stock returns. These policies which could be a combination of financial and monetary policies should be implemented by combined efforts of relevant agencies of government (Central Banks of Nigeria and Security Exchange Commission) saddled with the responsibility of seeing to the efficient running of the stock market. Also, strict adherence to stock market rules and regulations must be given utmost priority by the Security Exchange Commission. This is important because violation of stock market rules and regulation can generate stock market volatility. By stick adherence, stock market volatility could be limited.

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