

Research Article

Influence of Political Uncertainty on Investor Confidence in the Nigerian Stock Market

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Abstract

Political uncertainty has become a significant factor affecting investment decisions and market performance in emerging economies. This study empirically investigates the influence of political uncertainty on investor confidence in the Nigerian Stock Market, focusing on the specific dimensions of electoral uncertainty, policy instability, governance quality, and institutional credibility. Drawing on the Efficient Market Hypothesis, Behavioral Finance Theory, and Institutional Theory, the research posits that these political uncertainty dimensions significantly impact investor confidence. A survey research design was employed, collecting data from 312 investors, fund managers, and financial analysts operating in the Nigerian capital market. Data were analyzed using descriptive statistics, Pearson Product-Moment Correlation, and Multiple Regression Analysis. The findings reveal that all four independent variables, electoral uncertainty, policy instability, governance quality, and institutional credibility, are significant predictors of investor confidence. Specifically, governance quality emerged as the strongest positive predictor of investor confidence ($\beta=0.485$, $p<0.001$), while electoral uncertainty showed the strongest negative impact ($\beta=-0.420$, $p<0.001$). The regression model explained a substantial portion of the variance in investor confidence ($R^2=0.742$). This study concludes that while political uncertainty significantly undermines investor confidence in Nigeria, the strength of governance institutions and policy stability can mitigate these negative effects. The results reinforce the theoretical frameworks, suggesting that improving political stability and institutional quality can enhance investor confidence and capital market development. Recommendations include strengthening democratic institutions, ensuring policy continuity across political transitions, and enhancing transparency in governance processes.

Keywords

Political Uncertainty, Investor Confidence, Nigerian Stock Market, Electoral Uncertainty, Policy Instability, Governance Quality, Institutional Credibility

1. Introduction

The Nigerian Stock Market, as a pivotal component of Africa's financial landscape, plays a crucial role in mobilizing

domestic savings and channeling investments toward productive economic activities. As of 2024, the Nigerian Ex-

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Received: 20 January 2026; Accepted: 12 February 2026; Published: 4 June 2026



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change (NGX) has grown to a market capitalization exceeding ₦27 trillion, serving as a vital platform for corporate financing and wealth creation through diverse listings and investment opportunities [17]. Beyond its fundamental role in capital formation, the market acts as a barometer for the nation's economic health, with its performance often reflecting the prevailing optimism or pessimism about future economic prospects. However, this market's stability and investor participation are not solely dependent on economic fundamentals; they are profoundly influenced by political developments, policy changes, and the robustness of institutional frameworks. Political uncertainty, defined as the unpredictability of future political outcomes, government policies, and regulatory environments, has emerged as a critical factor affecting investor behavior and market dynamics, particularly in the context of emerging economies like Nigeria [13]. In Nigeria's context, this uncertainty manifests through various channels, including highly contested electoral cycles, abrupt policy reversals, governance challenges, and institutional weaknesses, all of which create an environment of unpredictability that can significantly impact investor confidence and market performance.

Investor confidence, which reflects the degree of trust and optimism that investors have in the stability of financial markets and the broader economy, is fundamental to sustainable capital market development and economic growth [6]. When political uncertainty is high, investors may become intensely risk-averse, leading to a number of adverse effects. These include capital flight, where both domestic and foreign investors withdraw funds from the market in search of safer havens, a reduction in market participation as new investments are deferred, and increased market volatility as speculative activities replace long-term strategic investments. This dynamic can create a self-reinforcing cycle of pessimism. Conversely, a stable political environment characterized by predictable policies and strong, credible institutions can significantly enhance investor confidence, thereby attracting both domestic and foreign direct investment. Such stability signals a reduced risk of expropriation, policy shocks, or legal disputes, making the market a more attractive destination for capital.

Nigeria's political landscape has been characterized by periodic episodes of uncertainty, making it a compelling case study. The period leading up to and immediately following the 2023 general elections, for instance, generated significant market volatility. Investors grappled with the lack of clarity regarding potential policy changes and the economic direction under a new administration, leading to a temporary slowdown in trading and investment. This pattern is not new; previous electoral cycles have consistently demonstrated the sensitivity of the Nigerian stock market to political developments, with market indices often reacting sharply to election-related news, court rulings, and government transitions. Beyond elections, policy inconsistencies across different administrations, such as changes in foreign exchange management or subsidy regimes, have introduced further unpredictability, compelling

investors to adopt a more cautious and short-term investment outlook.

Despite the well-established theoretical relationship between political uncertainty and investor confidence in Nigeria, empirical research specifically examining the nuanced dynamics of this relationship remains limited. While theoretical arguments suggest that political uncertainty negatively impacts investor confidence, the specific dimensions of political uncertainty that matter most for Nigerian investors and the precise mechanisms through which these effects occur require systematic investigation. This study therefore seeks to address this critical gap by empirically examining how several key dimensions, including electoral uncertainty, the credibility of governance, and the quality of institutional frameworks, influence investor confidence in the Nigerian Stock Market.

1.1. Objectives of the Study

The objectives of this study are to:

- i. Examine the effect of electoral uncertainty on investor confidence in the Nigerian stock market.
- ii. Assess the influence of policy instability on investor confidence in the Nigerian stock market.
- iii. Determine the impact of governance quality on investor confidence in the Nigerian stock market.
- iv. Investigate the effect of institutional credibility on investor confidence in the Nigerian stock market.

1.2. Hypotheses of the Study

Based on the objectives, the following null hypotheses will be tested:

- H_{01} : There is no significant effect of electoral uncertainty on investor confidence in the Nigerian stock market.
- H_{02} : There is no significant influence of policy instability on investor confidence in the Nigerian stock market.
- H_{03} : There is no significant impact of governance quality on investor confidence in the Nigerian stock market.
- H_{04} : There is no significant effect of institutional credibility on investor confidence in the Nigerian stock market.

2. Literature Review

i Political Uncertainty and Investor Confidence in Nigeria

Political uncertainty refers to the unpredictability surrounding future political developments, policy changes, and institutional stability that can affect economic outcomes [3]. In the context of emerging markets like Nigeria, political uncertainty encompasses several key dimensions that can significantly impact investor behavior and market performance.

ii Electoral Uncertainty

Electoral uncertainty represents the unpredictability surrounding electoral outcomes, including the likelihood of contested elections, potential changes in government, and the as-

sociated policy implications. Elections in emerging economies often generate significant market volatility as investors attempt to price in potential policy changes and their economic implications [22]. In Nigeria, electoral cycles have historically been associated with increased market volatility and capital outflows as investors adopt a wait-and-see approach [19]. This defensive posture is a direct response to the potential for significant shifts in economic direction, which can make it difficult for investors to forecast future business conditions and returns. The anticipation of policy changes can slow down foreign direct investment (FDI) decisions and lead to the postponement of domestic business expansion plans until a clear political trajectory emerges [9]. Electoral uncertainty creates several challenges for investors. The potential for significant policy changes following elections can make it difficult to predict future business conditions and investment returns. During election periods, investors often adopt defensive positions, reducing their exposure to risky assets and maintaining higher cash positions [22]. In Nigeria's context, electoral uncertainty has been compounded by issues such as electoral violence, disputed election results, and concerns about the credibility of electoral institutions [4]. These factors have contributed to increased market volatility and reduced investor confidence during electoral cycles. The 2019 and 2023 elections, for instance, were associated with significant capital outflows and market volatility as investors responded to uncertainties about election outcomes and potential policy implications [19]. This fear of a disrupted transition or a radical policy pivot directly impacts market sentiment and risk perception, causing both foreign and domestic investors to sideline their capital.

iii Policy Instability

Policy instability refers to the inconsistency and unpredictability of government policies across different administrations or even within the same administration. This includes frequent policy reversals, lack of policy continuity, and unclear policy signals that create uncertainty about the future business environment [16]. Nigeria has experienced significant policy instability in several areas, which has had a profound impact on investor decisions [4]. For instance, frequent changes to foreign exchange policy, including the introduction of multiple exchange rate regimes and various currency controls, have made it challenging for businesses to plan for imports, exports, and profit repatriation [10]. Similarly, shifts in fiscal policies, such as sudden changes to taxes, subsidies, and customs duties, have introduced additional risk, compelling investors to demand higher risk premiums to compensate for the unpredictable regulatory landscape. Policy instability creates an unpredictable business environment that can significantly undermine investor confidence. When policies are frequently changed or reversed, investors find it difficult to make long-term investment decisions and may demand higher risk premiums to compensate for policy uncertainty [16]. Nigeria has experienced significant policy instability in several areas. For-

example, foreign exchange policy, for example, has been subject to frequent changes, including multiple exchange rate regimes, currency controls, and policy reversals. Similarly, fiscal policies, including taxation and government spending, have often lacked consistency across different administrations. These policy uncertainties have contributed to reduced investor confidence and capital flight [1]. The lack of a stable policy framework makes it difficult for companies to forecast revenues and costs, thus eroding the basis for long-term investment planning.

iv Governance Quality

Governance quality encompasses the effectiveness of government institutions, rule of law, regulatory quality, and control of corruption. Strong governance institutions provide predictability and stability that are essential for investor confidence [15]. Conversely, weak governance, characterized by widespread corruption, poor regulatory enforcement, and institutional inefficiency, creates uncertainty and undermines investor confidence [10, 12]. In Nigeria, pervasive corruption is a significant impediment. It not only increases the cost of doing business through bribes and illicit payments but also creates an uneven playing field that favors politically connected actors over those who operate ethically [21]. This deters long-term, strategic investors and fosters an environment where the protection of contracts and intellectual property rights is not guaranteed. Strong governance institutions are fundamental to investor confidence as they provide the predictability and rule of law necessary for effective capital market functioning. Quality governance includes effective government, regulatory quality, rule of law, and control of corruption [15]. Nigeria's governance challenges, including corruption, weak regulatory enforcement, and institutional inefficiency, have been identified as significant impediments to investor confidence [12]. Transparency International's Corruption Perception Index consistently ranks Nigeria among the more corrupt countries globally, which undermines investor confidence and increases country risk for investor confidence and market development [25]. This perception of high corruption raises the risk of investment in Nigeria, as investors fear their returns may be diminished by illicit activities or that their legal recourse in case of a dispute will be ineffective [21].

v Institutional Credibility

Institutional credibility refers to the trustworthiness and reliability of key institutions including the central bank, securities market regulators, judiciary, and other relevant government agencies. Credible institutions provide assurance to investors about the stability of the investment environment and the protection of investor rights [18]. In Nigeria, the credibility of institutions like the Central Bank of Nigeria (CBN) and the Nigerian Exchange Group (NGX) is paramount. A lack of perceived independence in the CBN, for example, can erode confidence in monetary policy and the stability of the currency, which are critical for both foreign and domestic investors [26]. Similarly, if regulatory bodies like the SEC or NGX are seen as compromised or inefficient, it can lead to concerns about

market integrity, insider trading, and the enforcement of shareholder rights, thereby reducing market participation [21]. Credible institutions provide the foundation for investor confidence by ensuring fair and transparent market operations, protecting investor rights, and maintaining market integrity. In Nigeria, key institutions include the Securities and Exchange Commission (SEC), [7], and the Nigerian Exchange Group (NGX). The Securities and Exchange Commission (SEC) plays a critical role in maintaining market integrity, investor protection, and regulatory compliance within the Nigerian capital market [24]. The credibility of these institutions significantly influences investor confidence. Strong and independent regulatory institutions can enhance investor confidence by ensuring fair market practices, enforcing regulations effectively, and protecting minority shareholders. Conversely, weak or compromised institutions can undermine investor confidence and reduce market participation, as investors may fear that the rules can be bent or that they have no protection against unethical practices, thereby eroding trust in the financial system [21].

vi Investor Confidence

Investor confidence represents the degree of optimism or pessimism that investors feel about the future performance of financial markets and the broader economy [6]. It reflects investors' trust in market institutions, confidence in economic policies, and expectations about future returns. High investor confidence typically leads to increased investment activity, higher market valuations, and greater market participation. Key components of investor confidence include Market Sentiment, which reflects the general mood and attitude of investors toward market prospects; Risk Perception, representing investors' assessment of potential losses and uncertainties; Trust in Institutions, reflecting confidence in market regulators, government policies, and the broader institutional framework; and Future Expectations, encompassing investors' outlook on economic growth, corporate earnings, and market performance. In emerging markets, investor confidence is particularly sensitive to political developments due to the typically weaker institutional frameworks and higher country risk premiums. Studies have shown that political uncertainty can significantly reduce investor confidence through multiple channels, including increased policy uncertainty, heightened risk perceptions, and reduced trust in institutions [13].

2.1. Theoretical Framework

This study is anchored on three complementary theoretical frameworks: the Efficient Market Hypothesis, Behavioral Finance Theory, and Institutional Theory.

The relationship between political uncertainty and financial market performance is a critical area of study, particularly in emerging economies where institutional and political landscapes can be volatile. This analysis synthesizes three prominent theoretical frameworks, the Efficient Market Hypothesis

(EMH), Behavioral Finance Theory, and Institutional Theory, to provide a comprehensive lens through which to examine the impact of political uncertainty on investor confidence within the context of the Nigerian capital market. These theories, while distinct in their core tenets, collectively offer a robust explanation for why and how political instability can profoundly affect market dynamics, asset valuation, and investor behavior.

a The Efficient Market Hypothesis (EMH) and its Limits in Emerging Markets

The Efficient Market Hypothesis, a foundational theory in financial economics developed by [11], posits that asset prices on a given market fully and instantaneously reflect all available information. In a perfectly efficient market, the impact of new information, including political events or announcements, would be immediately incorporated into stock prices, leaving no opportunity for abnormal returns. According to this framework, an increase in political uncertainty should be swiftly priced into the market, and investors would operate with a shared understanding of the associated risks. However, the application of EMH to emerging markets like Nigeria is often challenged. While the theory's semi-strong form acknowledges that markets may not always process information with perfect efficiency, it is in these contexts that such imperfections become most apparent. Political uncertainty introduces significant information asymmetries, creating a fog of unpredictability that is difficult for rational actors to quantify and price. As a result, markets may struggle to efficiently discount future political risks, leading to prolonged periods of heightened volatility and depressed asset valuations. The EMH framework thus helps to explain why political uncertainty can have persistent and destabilizing effects, not because the information is ignored, but because the market's mechanism for processing and reflecting that information is hindered by its very nature.

b The Role of Behavioral Finance: Psychological Biases and Market Irrationality

In contrast to the EMH's assumption of rational investors, Behavioral Finance Theory recognizes that investor decisions are not always logical and can be heavily influenced by psychological biases and emotions. Pioneered by scholars like Daniel Kahneman and Amos Tversky, this theory provides a powerful explanation for the non-linear and sometimes irrational market reactions to political events. Political uncertainty serves as a powerful trigger for various cognitive biases loss aversion and heuristics as discussed by [14], for example, causes investors to feel the pain of a potential loss more intensely than the pleasure of an equivalent gain, leading them to become overly cautious and pull out of the market at the first sign of trouble. Herding behavior can emerge as investors, lacking clear information, follow the actions of the crowd, leading to panic selling or irrational buying frenzies that amplify market swings. Furthermore, anchoring bias can cause investors to rely too heavily on past political

experiences or historical market levels when assessing current uncertainties, preventing them from adapting to new realities. In Nigeria's context, the collective memory of past political crises, such as the 1993 election annulment or the periods of prolonged military rule, may serve as a powerful anchor for investor sentiment, amplifying current fears and making market participants more susceptible to emotional decision-making.

c Institutional Theory and the 'Rules of the Game' in an Emerging Economy

Institutional Theory, a framework championed by [18], emphasizes the critical role of institutions in shaping economic behavior and outcomes. Institutions, defined as the formal and informal "rules of the game," provide the structure that governs economic interactions. They reduce transaction costs and foster predictability, thereby providing a stable and trustworthy environment for capital to flow. In this context, strong institutions are those that provide clear and consistent rules, effectively enforce contracts, protect property rights, and maintain market integrity through credible regulatory bodies. Such institutions are essential for building and sustaining investor confidence, as they signal a reduced risk of expropriation, policy shocks, or legal disputes. Conversely, weak or unreliable institutions create a profound sense of uncertainty and increase transaction costs, directly undermining investor confidence. Institutional Theory is particularly relevant for understanding the Nigerian experience, where historical and contemporary institutional weaknesses, including corruption, a lack of policy consistency, and slow judicial processes, have been identified as significant constraints to economic development and capital market growth. The theory suggests that any efforts to mitigate the negative effects of political uncertainty must, at their core, focus on strengthening the nation's institutional frameworks to provide a more stable and predictable environment for investors.

2.2. Empirical Review

A growing body of empirical literature substantiates the theoretical link between political uncertainty and financial market performance, offering concrete evidence of its effects across diverse global contexts. This section synthesizes key findings from both international and Nigerian-focused studies to build a robust empirical foundation for our analysis.

Recent research has consistently demonstrated that political uncertainty significantly impacts financial markets. A comprehensive analysis by [23] across 45 countries found that heightened political uncertainty not only reduces stock market valuations but also substantially increases volatility. Their research, which utilized a novel measure of uncertainty derived from media coverage, quantified this effect by showing that a one standard deviation increase in political uncertainty was associated with a notable 4.2% decline in stock market returns. This finding is further corroborated by [3], who specifically examined the impact on emerging market returns. Their study

of 18 countries over two decades revealed that the negative effect of political uncertainty was more pronounced in emerging markets than in developed ones. They attributed this differential impact to the weaker institutional and regulatory frameworks prevalent in these economies, which are less equipped to buffer against political shocks.

Beyond general political unpredictability, specific forms of uncertainty, such as those related to elections and government policy, have been empirically isolated and studied. [22] focused on electoral uncertainty across 23 democracies, finding that stock market volatility increased by an average of 12% in the six months leading up to national elections. This effect was found to be most acute in countries with less robust democratic institutions, underscoring the role of governance in mediating market reactions. In a study with a specific African focus, [20] found that electoral uncertainty significantly increased market volatility and reduced foreign portfolio investment inflows across six African stock markets. Notably, their research identified the Nigerian market as exhibiting the strongest sensitivity, with volatility increasing by a substantial 18% during election periods, highlighting the market's unique vulnerability to electoral-related risks.

This pattern is mirrored in the realm of policy instability. A meta-analysis by [16] revealed that policy uncertainty consistently reduces private investment. Their research suggested that a one-unit increase in policy uncertainty was linked to a 2-3% decline in investment rates, illustrating a direct and tangible economic cost. This is particularly relevant to Nigeria, where [2] used a local Policy Uncertainty Index to find that such instability significantly reduced stock market returns and increased volatility. They noted that these effects were not fleeting but persisted for up to six months following key policy announcements, suggesting a prolonged period of market struggle to adjust.

In addressing the negative effects of political uncertainty, empirical evidence points to the crucial role of governance and institutional quality. [15] Conducted a large-scale analysis across 150 countries, revealing a strong positive correlation between high governance quality and key capital market indicators such as depth, liquidity, and foreign participation. Their study found that countries in the top quartile of governance quality had market capitalizations that were, on average, 40% higher than those in the bottom quartile. This powerful finding suggests that strong institutions can act as a counterweight to political uncertainty. For the Nigerian context, [5] confirmed this relationship, demonstrating that improvements in institutional quality, particularly in areas like the rule of law and control of corruption, significantly enhanced capital market performance and attracted greater foreign investment. These studies provide empirical support for the idea that investing in institutional reform can be a key strategy for fostering investor confidence and promoting long-term financial stability, even in politically dynamic environments.

3. Methodology

The survey research design adopted in this study is consistent with the recommendations of [8], who emphasize the suitability of survey methods for examining relationships among variables and testing hypotheses using quantitative data.

The adoption of a survey design facilitates the systematic collection of standardized data from a substantial sample of respondents, which in turn permits rigorous statistical analysis and enhances the generalizability of the research findings.

The target population for this research encompassed all active participants within the Nigerian capital market. This diverse group included individual and institutional investors, fund managers, investment analysts, and stockbrokers. Based on records from the Central Securities Clearing System (CSCS) as of December 2023, the population of active investor accounts on the Nigerian Exchange was approximately 3.2 million. A multi-stage sampling technique was utilized to draw a representative sample from this population. Initially, key investment hubs in Nigeria, namely Lagos, Abuja, Port Harcourt, Kano, and Ibadan, were selected as the primary sampling units. Subsequently, a stratification process was applied within each center, categorizing investment firms, banks with investment banking divisions, pension fund administrators, and retail investment centers. The final stage involved purposive sampling to select respondents who possessed a minimum of two years of active engagement in the Nigerian stock market and could demonstrate a clear understanding of how political developments influence market dynamics. The sample size was determined using Cochran's formula, which indicated a minimum requirement of 384 participants for a 95% confidence level and a 5% margin of error, considering the population's heterogeneity. To mitigate the impact of potential non-responses and ensure robust representation across investor categories, the target sample was increased to 400. Ultimately, 312 valid responses were collected, yielding a strong response rate of 78%.

Data were gathered using a structured questionnaire meticulously developed for this study. The instrument was segmented into several sections, beginning with demographic and background information such as age, education, market experience, investor type, and portfolio size. Subsequent sections contained scales to measure key constructs: a 6-item Electoral Uncertainty scale, a 7-item Policy Instability scale, an 8-item Governance Quality scale, a 6-item Institutional Credibility scale, and a 10-item Investor Confidence scale. All perceptual items were rated on a 5-point Likert scale, ranging from 1 (Strongly Disagree/Very Low) to 5 (Strongly Agree/Very

High). To ensure the instrument's clarity and relevance, a pilot test was conducted with 30 respondents, leading to minor refinements based on the feedback received. The psychometric properties of the questionnaire were rigorously established. Content validity was affirmed through a comprehensive review by a panel of experts, including three finance professors and two senior market practitioners, who evaluated the relevance and thoroughness of the items. Construct validity was confirmed via exploratory factor analysis, which supported the theoretically derived factor structure of the scales. The internal consistency and reliability of the scales were assessed using Cronbach's alpha, yielding high coefficients for Electoral Uncertainty ($\alpha = 0.847$), Policy Instability ($\alpha = 0.892$), Governance Quality ($\alpha = 0.876$), Institutional Credibility ($\alpha = 0.834$), and Investor Confidence ($\alpha = 0.901$). As all values surpassed the conventional 0.70 threshold, the instrument was deemed reliable.

The data collection phase was executed over a six-week period from March to April 2024. A multi-channel approach was adopted for questionnaire administration, incorporating online surveys distributed via investment firm databases, in-person interviews conducted at investment centers, and postal surveys sent to registered investors. To maintain procedural uniformity, all research assistants involved in the data collection process received standardized training. The collected data were subsequently analyzed using the Statistical Package for Social Sciences (SPSS) version 27.0. The analysis proceeded in three stages: first, descriptive statistics such as frequencies, percentages, means, and standard deviations were computed to summarize the sample's characteristics. Second, Pearson Product-Moment Correlation was used to explore the relationships between the study variables. Finally, multiple linear regression analysis was performed to test the research hypotheses and ascertain the predictive influence of the independent variables on investor confidence. The regression model was specified as:

$$IC = \beta_0 + \beta_1EU + \beta_2PI + \beta_3GQ + \beta_4IC_CRED + \varepsilon$$

Where:

- 1) IC = Investor Confidence (Dependent Variable)
- 2) EU = Electoral Uncertainty
- 3) PI = Policy Instability
- 4) GQ = Governance Quality
- 5) IC_CRED = Institutional Credibility
- 6) β_0 = Intercept
- 7) $\beta_1, \beta_2, \beta_3, \beta_4$ = Regression coefficients
- 8) ε = Error term

4. Results and Discussion

Table 1. Descriptive Statistics.

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Electoral_Uncertainty	312	1.67	4.83	3.45	0.92	0.846
Policy_Instability	312	1.43	4.71	3.52	0.87	0.757
Governance_Quality	312	1.75	4.88	2.98	0.94	0.884
Institutional_Credibility	312	1.50	4.67	3.12	0.89	0.792
Investor_Confidence	312	1.40	4.60	2.87	0.83	0.689
Valid N (listwise)	312					

The descriptive statistics reveal important patterns in the data. Electoral Uncertainty and Policy Instability both scored above the midpoint (3.45 and 3.52 respectively), indicating that respondents perceive high levels of uncertainty in these areas. Governance Quality scored below the midpoint (2.98),

suggesting perceptions of poor governance. Institutional Credibility scored slightly above the midpoint (3.12), indicating moderate trust in institutions. Investor Confidence scored below the midpoint (2.87), suggesting relatively low confidence levels among Nigerian stock market participants.

Table 2. Correlation Analysis.

	Electoral_Un- certainty	Policy_Instabil- ity	Govern- ance_Quality	Institutional_Credi- bility	Investor_Confi- dence
Electoral_Uncertainty	1	.634**	-.578**	-.492**	-.687**
		.000	.000	.000	.000
	312	312	312	312	312
Policy_Instability	.634**	1	-.601**	-.523**	-.705**
	.000		.000	.000	.000
	312	312	312	312	312
Governance_Quality	-.578**	-.601**	1	.698**	.751**
	.000	.000		.000	.000
	312	312	312	312	312
Institutional_Credibility	-.492**	-.523**	.698**	1	.632**
	.000	.000	.000		.000
	312	312	312	312	312
Investor_Confidence	-.687**	-.705**	.751**	.632**	1
	.000	.000	.000	.000	
	312	312	312	312	312

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix reveals significant relationships between all variables at the 0.01 level. Electoral Uncertainty and Policy Instability show strong negative correlations with Investor Confidence ($r = -0.687$ and $r = -0.705$ respectively), indicating that higher uncertainty reduces investor confidence. Conversely, Governance Quality and Institutional Credibility show strong positive correlations with Investor Confidence ($r = 0.751$ and $r = 0.632$ respectively), suggesting that better governance and more credible institutions enhance investor confidence. The strong positive correlation between Governance

Quality and Investor Confidence ($r = 0.751$) is particularly noteworthy, as it suggests that governance improvements could significantly enhance investor confidence. The negative correlation between Electoral Uncertainty and Policy Instability ($r = 0.634$) indicates these uncertainty dimensions often occur together, potentially amplifying their negative effects on investor confidence.

Regression Analysis

Table 3. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.861 ^a	.742	.739	.425	2.087

a. Predictors: (Constant), Institutional_Credibility, Electoral_Uncertainty, Policy_Instability, Governance_Quality

b. Dependent Variable: Investor_Confidence

Table 4. ANOVA^a.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	159.847	4	39.962	221.032	.000 ^b
	Residual	55.543	307	.181		
	Total	215.390	311			

a. Dependent Variable: Investor_Confidence

b. Predictors: (Constant), Institutional_Credibility, Electoral_Uncertainty, Policy_Instability, Governance_Quality

Table 5. Coefficients^a.

Model		Unstandardized Coefficients	Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	
1	(Constant)	.452	.198		2.283
	Electoral_Uncertainty	-.378	.042	-.420	-9.000
	Policy_Instability	-.289	.045	-.303	-6.422
	Governance_Quality	.428	.041	.485	10.439
	Institutional_Credibility	.178	.043	.191	4.140

a. Dependent Variable: Investor_Confidence

The multiple linear regression results demonstrate a strong model fit with an R-value of 0.861, indicating a very strong multiple correlation between the predictors and investor confidence. The R-squared value of 0.742 shows that 74.2% of

the variance in investor confidence can be explained by the four political uncertainty dimensions. The adjusted R-squared of 0.739 suggests good generalizability of the model. The

ANOVA results confirm that the overall model is highly statistically significant ($F(4,307) = 221.032, p < 0.001$), indicating that the independent variables collectively are significant predictors of investor confidence. The coefficients table reveals that all four independent variables are statistically significant predictors of investor confidence. Electoral Uncertainty ($\beta = -0.420, p < 0.001$) revealed the strongest negative predictor, suggesting that a one-unit increase in electoral uncertainty leads to a 0.378-unit decrease in investor confidence. Policy Instability ($\beta = -0.303, p < 0.001$) shows a significant negative effect, with a one-unit increase in policy instability associated with a 0.289-unit decrease in investor confidence. Governance Quality ($\beta = 0.485, p < 0.001$) shows the strongest positive predictor, indicating that a one-unit improvement in governance quality leads to a 0.428-unit increase in investor confidence. Institutional Credibility ($\beta = 0.191, p < 0.001$) shows a significant positive effect, with a one-unit increase in institutional credibility associated with a 0.178-unit increase in investor confidence.

Discussion of Findings

The empirical findings provide strong support for the theoretical propositions and research hypotheses. All four null hypotheses are rejected, confirming significant relationships between political uncertainty dimensions and investor confidence in the Nigerian Stock Market. The strong negative relationship ($\beta = -0.420$) confirms that electoral uncertainty significantly undermines investor confidence. This finding aligns with [22] who found similar effects across emerging markets. In Nigeria's context, this reflects investor concerns about potential policy changes following elections, electoral violence, and disputed election results. The strong effect size suggests that electoral periods may be associated with significant capital outflows and reduced market participation. The significant negative effect ($\beta = -0.303$) supports the theoretical expectation that policy instability reduces investor confidence. This finding is consistent with [16] who found that policy uncertainty reduces investment across countries. In Nigeria, frequent policy reversals, particularly in foreign exchange and fiscal policies, create an unpredictable business environment that undermines long-term investment planning. The strong positive relationship ($\beta = 0.485$) highlights the critical importance of governance quality for investor confidence. This finding aligns with [15] who found strong positive correlations between governance quality and capital market development. The result suggests that improvements in governance effectiveness, rule of law, and corruption control could significantly enhance investor confidence in Nigeria. The positive relationship ($\beta = 0.191$) confirms that credible institutions enhance investor confidence. While the effect is smaller than governance quality, it remains statistically significant and practically meaningful. This finding supports institutional theory's emphasis on the importance of credible institutions for economic development.

The findings provide strong empirical support for the theo-

retical frameworks underlying this study. The Efficient Market Hypothesis is partially supported in that markets appear to incorporate political uncertainty information, as evidenced by the significant relationships found. However, the persistence and magnitude of these effects suggest market inefficiencies consistent with behavioral finance theories. The Behavioral Finance Theory receives strong support, as the significant negative effects of uncertainty suggest that investor behavior is influenced by psychological factors rather than purely rational calculations. The strong effect of electoral uncertainty, in particular, may reflect loss aversion and herding behaviors during uncertain periods. Institutional Theory receives perhaps the strongest support, with both governance quality and institutional credibility showing significant positive effects on investor confidence. This confirms the critical role of institutions in creating an environment conducive to investment and capital market development.

5. Conclusion

This study has provided comprehensive empirical evidence on the influence of political uncertainty on investor confidence in the Nigerian Stock Market. The findings unequivocally demonstrate that political uncertainty significantly affects investor confidence through multiple channels including electoral uncertainty, policy instability, governance quality, and institutional credibility. The results reveal that electoral uncertainty and policy instability have strong negative effects on investor confidence, while governance quality and institutional credibility have positive effects. Governance quality emerged as the most influential factor, suggesting that improvements in governance could significantly enhance investor confidence and capital market development in Nigeria. The study's findings have important theoretical and practical implications. Theoretically, the results provide strong empirical support for behavioral finance theory and institutional theory while highlighting potential market inefficiencies consistent with emerging market characteristics. Practically, the findings emphasize the need for political stability, policy consistency, and institutional strengthening to support capital market development. The study contributes to the limited empirical literature on political uncertainty effects in African capital markets and provides specific insights relevant to Nigeria's development context. The findings suggest that while political uncertainty is a significant constraint to capital market development in Nigeria, targeted reforms in governance and institutional quality could mitigate these effects and enhance investor confidence.

6. Recommendations

Based on the empirical findings, the following recommendations are proposed:

- i. Strengthen Democratic Institutions:* Government should

focus on strengthening democratic institutions to reduce electoral uncertainty. This includes ensuring free and fair elections, improving electoral dispute resolution mechanisms, and enhancing the credibility of electoral institutions.

ii. Ensure Policy Consistency: Policymakers should maintain consistency in economic policies across political transitions. This can be achieved through the development of long-term economic strategies that transcend electoral cycles and the establishment of independent policy institutions.

iii. Improve Governance Quality: Government should prioritize governance reforms including strengthening rule of law, enhancing regulatory effectiveness, and implementing comprehensive anti-corruption measures. This includes establishing transparent procurement processes, strengthening judicial independence, and improving public sector efficiency.

iv. Enhance Institutional Credibility: Regulatory institutions such as the Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) should focus on building and maintaining credibility through transparent operations, consistent policy implementation, and effective stakeholder communication.

v. Develop Political Risk Management Framework: Market regulators should develop comprehensive frameworks for managing political risk in the capital market. This includes establishing early warning systems for political developments that may affect market stability and developing contingency plans for managing market disruptions during political transitions.

vi. Promote Investor Education: Market development initiatives should include comprehensive investor education programs that help market participants understand and manage political risks. This includes providing information on political developments' potential market impacts and strategies for managing political risk exposure.

vii. Strengthen Market Infrastructure: Investment should be made in strengthening market infrastructure to enhance resilience during periods of political uncertainty. This includes improving trading systems, clearing and settlement mechanisms, and market surveillance capabilities.

viii. Foster International Cooperation: Nigeria should engage in international cooperation initiatives to learn from best practices in managing political risk in capital markets. This includes participating in regional capital market integration initiatives and learning from countries with successful experiences in maintaining investor confidence during political transitions.

Limitations of the Study

This study has several limitations that should be acknowledged:

i. Temporal Scope: The study adopted a cross-sectional design, providing a snapshot at one point in time. A longitudinal study could provide better insights into the dynamic relationships between political uncertainty and investor confidence over time.

ii. Geographic Scope: The study focused on the Nigerian

Stock Market, limiting the generalizability of findings to other African markets or emerging economies with different political and institutional contexts.

iii. Measurement Limitations: Political uncertainty and investor confidence are complex multidimensional constructs that may not be fully captured by survey instruments. Future studies could benefit from incorporating objective measures of political uncertainty and market-based measures of investor confidence.

iv. Sample Characteristics: Despite efforts to ensure representativeness, the sample may not fully represent all categories of Nigerian stock market participants, particularly smaller retail investors who may have different perceptions and responses to political uncertainty.

v. Causality: While the study establishes significant relationships between variables, the cross-sectional design limits conclusions about causality. Future studies using panel data or natural experiments could better establish causal relationships.

Author Contributions

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Conflicts of Interest

The author declares no conflicts of interest.

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