

**DETERMINANTS OF INVESTOR CONFIDENCE IN KENYA'S
CORPORATE BOND MARKET: MODERATED BY EQUITY RISK
PREMIUM**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR
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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, this dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

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APPROVAL

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DEDICATION

This dissertation is dedicated to my father and mother and to my wife for their support, love, and cheerfulness during my studies.



ACKNOWLEDGEMENT

I take this chance to acknowledge Dr. James Ndegwa for the advice and suggestions made for improving this dissertation.



ABSTRACT

This study examined determinants of investor confidence in Kenya's corporate bond market: moderated by equity risk premium. Its specific objectives were to: assess the effect of market determinants on investor confidence; examine the effect of bond characteristics on investor confidence; investigate the effect of bond default risk on investor confidence; assess the effect of economic growth on investor confidence in Kenya's corporate bond market; and examine the moderating effect of equity risk premium on the relationship between investor confidence and determinants of investor confidence in Kenya's corporate bond market. The research was anchored on Information Asymmetry Theory and Business Cycle Theory. The research adopted a positivist research philosophy that implemented a longitudinal research design. The target population and sample size were corporate bond market and gross domestic product data between 2014 to 2024. The data that was analysed using correlation and regression analysis after running diagnostic tests. The findings revealed bond market volatility and bond default risk had a negative effect on investor confidence in the corporate bond market while bond characteristics had a positive effect on investor confidence. Additionally, economic growth was found to have no relationship with investor confidence and moderating effect of equity risk premium on determinants of investor confidence was determined as insignificant. The study concludes that bond market volatility and bond default risk have a negative effect on investor confidence while bond characteristics had a positive effect. The research recommends for regulators to ensure continuity and consistency in fiscal and monetary policies, especially during politically sensitive periods such as general elections. It is recommended that the national treasury and NSE intermediaries to improve the structural quality of bonds to attract investors.

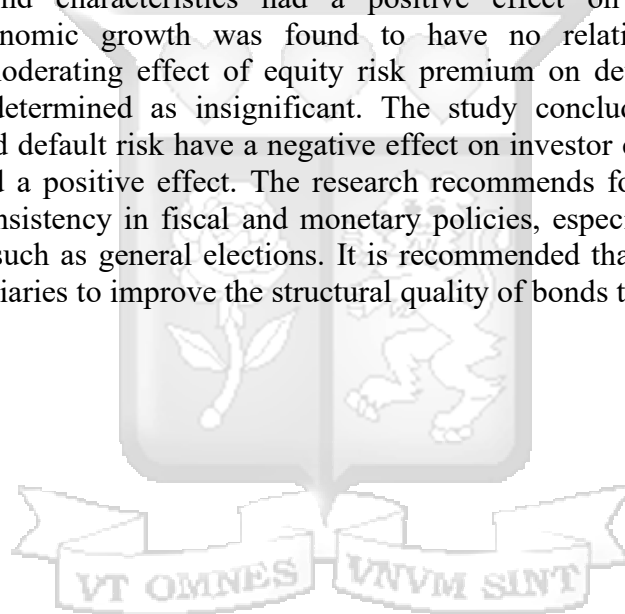


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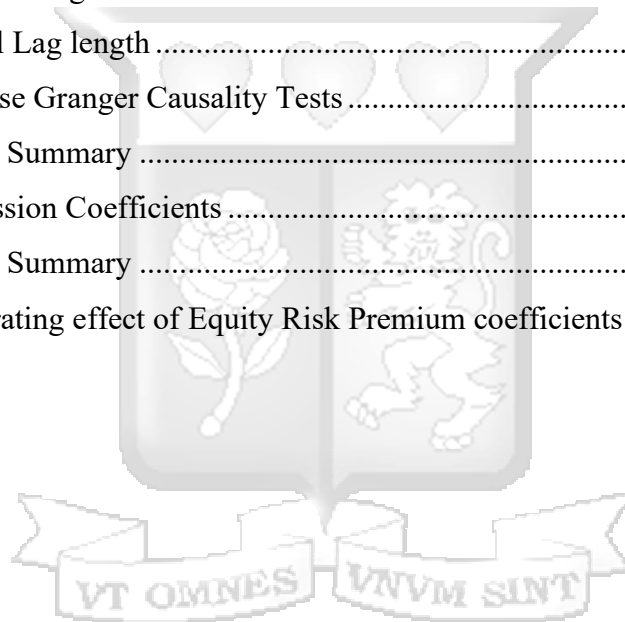
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ABBREVIATIONS AND ACRONYMS

ADF	Augmented Dickey-Fuller
ANOVA	Analysis of Variance
ATS	Automated Trading System
BP	Breusch-Pagan
CMA	Capital Markets Authority
CSAMR	China State Administration for Market Regulation
DW	Durbin Watson
EMH	Efficient Market Hypothesis
EU	European Union
GDP	Gross Domestic Product
MBA	Masters of Business Administration
MLE	Maximum Likelihood Estimates
MPT	Modern Portfolio Theory
NSE	Nairobi Securities Exchange
RBT	Resource-Based Theory
RDT	Resource-Dependence Theory
RE	Renewable Energy
REITs	Real Estate Investment Trusts
ROI	Return on Investment
SEM	Structural Equation Modelling
SSA	Sub-Saharan Africa
VAR	Vector Autoregressive
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The financial industry offers a lot towards the development and growth of a nation's economy and investor confidence is an important variable for the industry. The Sub-Saharan Africa (SSA) financial sector is growing but still experiences vulnerabilities that raise concern for its stakeholders (Hammond, Opuku, & Kwakwa, 2022). The accuracy and objectivity of available financial statements and reports are a significant determinant for investor confidence. These documents are anticipated to have the quality of reliability and relevance that assist investors in their decision-making (Kilonzo, 2020).

Investors are organisations or individuals who invest their funds in expectations of greater returns from their initial investment (Diaz, Esparcia, & López, 2019). The willingness of investors to invest but also remaining considerate of expected return and risk is a sign of their confidence. Investors are rational in making their decisions based on the future prospects and performance of a company or investment (Kilonzo, 2020). The changing price of debt instruments and shares show the expectations or fear of investors (Enache & Hussainey, 2020). Investor confidence comes from the collection of different technical and fundamental factors including annual reports, historical price, and market condition uncertainty that consists of seasonal factors, global, and domestic news (Nguyen et al., 2018).

Investor confidence can be categorized into individual and overall confidence levels in which the former is determined by the general situation of the market while the latter is influenced by enterprise operation, information disclosure, and financial position (Yang et al., 2022). Yang et al. (2022) explains there has been limited achievements to measure individual investor confidence in the academic domain. This is even more glaring in Kenya. Therefore, this research motivation comes from the need to be able to determine those factors influencing investor confidence in Kenya's corporate bond market. There are several instances to show how corporate bond market has been relatively ignored. First, scholarly and research interest into the corporate bond market in Kenya is low compared to government and treasury bonds. Therefore, less is known about those factors that may contribute or hinder investor confidence in this sector.

Second, there is less activity when it comes to corporate bonds in terms of those issuing these bonds and also interest from investors in corporate bonds. There is low participation of investors on corporate bonds as compared to treasury and government bonds. For example, the largest proportion investment in corporate bonds is held by fund managers (70.5%) whereas the remaining 29.5% is distributed among banks, investment companies, insurance companies, and retail investors (Capital Markets Authority [CMA], 2022). Thus, the motivation of this study is to examine investor confidence in Kenya's corporate bond market.

1.1.1 Determinants of Corporate Bond Investor Confidence

There are various factors that have been found to have an influence on investor confidence in stock markets. On a global perspective, He (2024) revealed that corporate announcements have become a significant source of data that influences investor expectations and behaviour. Paule-Vianez, Orden-Cruz, and Escamilla-Solano (2022) found fear also affected investor confidence while Hoffmann and Post (2016) found that investors that are confidence are more dependent on intuitive judgements on expected returns. In another study, Pulpet et al. (2019) findings confirmed that government bonds present lower risks in comparison to other bonds and this enhances investor confidence.

In the African region, Agyemang et al. (2017) found political stability, property rights, voice and accountability, and rule of law had positive associations with investor confidence. Modibbo and Tijjani (2020) established that block and insider ownership had a negative association with investor confidence while foreign ownership had no association in Nigeria. Hammond et al. (2022) revealed that going concern, governance, and corporate disclosures had a direct effect on investor confidence in South Africa. Using a sample of emerging economies, Saadaoui, Elammari, and Kriaa (2022) results showed notifications given from rating agencies influenced investor confidence.

In Kenya, Bitok et al. (2011) revealed that economic growth indicated an increase or decrease in investor confidence while Ngugi and Afande (2015) study established that quality information disclosure improves investor confidence. Consequently, Wanjau (2018) revealed positive and significant relationship between market factors and investor sentiment while Mureithi, Mukhongo, and Datche (2019) determined that that stable exchange rate creates confidence in investors.

Further, Kihui (2010) found that investor confidence was influenced by low corruption, better auditing, transparency, and effective legislation while Kilonzo (2020) found that forward-looking, social accounting, and human resource accounting information disclosures had no effect on investor confidence. Based on the foregoing, the study adopted bond market volatility, bond characteristics, bond default risk, and economic growth as its independent variables.

Bond market volatility refers to the unpredictable, sharp, price movements of corporate bonds (He, 2024). Bond characteristics refers to the unique features of corporate bonds offered in the market (Bertuah & Nurlinda, 2019). Bond default risk refers to the probability that the bond issuer might fail to make the required payments of its principle or interest (Gurusamy et al., 2016). Economic growth rate refers to the change in value of goods and services produced within for a specific period in comparison to an earlier period (Rahimian et al., 2022). Equity risk premium refers to excess return that investing in the stock market provides over a risk-free rate (Basri et al., 2022). Investor confidence refers to willingness of investors to undertake financial activities in the corporate bond market by leveraging all available opportunities (Yang et al., 2022).

Despite this interest in examining determinants of corporate bond investor confidence; several gaps emerge. There is a wide knowledge gap that exists in terms of factors influencing investor confidence in Kenya's corporate bond market. For example, most research on investor confidence has been on treasury bonds, government bonds, and company stocks (Kihui, 2010; Ngugi & Afande, 2015; Kilonzo, 2020). The paucity of research on investor confidence on corporate bond market is a gap this study aims aimed to fill. Conceptually, studies have examined company announcements, crisis events, and company disclosures (Díaz, Esparcia, & López, 2022; Contractor, Balli, & Hoxha, 2023) on investor confidence and there is a gap in terms of the effect of corporate bond market liquidity on investor confidence that this research filled.

The contextual gap that emerges from existing research indicates that most studies on corporate bond market and investor confidence have been conducted in Western markets, Asian markets, and European markets (He, 2024; Hodgson & Okunev, 2021; Soenen & Vennet, 2022). There is less evidence of studies in the local and regional markets due to the relatively low investments in corporate bond markets requires further investigation. In terms of methodological gaps, other research has adopted primary sources of data,

collected data from respondents, used cross-sectional research designs (Begum & Kamal, 2018; Tunio et al., 2021; Gurusamy, Vengatesan, & Hemavathy, 2016). Nonetheless, there is need for longitudinal research that uses time series data to examine this relationship. Additionally, past studies have not considered equity risk premium as a moderating variable when studying determinants of investor confidence in the bond market in Kenya or when studying determinants of bonds uptake in Kenya and hence a knowledge gap that needs further investigation.

1.1.2 Investor Confidence

Kilonzo (2020) defines investor confidence as the willingness by existing or potential investors to engage in the venturing into the company based on their perception of return and risk. According to Enache and Hussainey (2020), investor confidence is one of the key drivers of investments in the capital markets. The changing prices of shares and debt instruments indicate the fear or expectations of the investors (Kilonzo, 2020). Their willingness to participate in investment opportunities while considering the expected risk and return demonstrates their confidence (Hammond et al., 2022).

Investors' confidence is important in the investment decisions whether investors are experienced or just starting out. More confident investors rely more on intuitive judgments when forming beliefs about expected return (Nguyen et al., 2018). They change their beliefs more strongly, and thus have more reason to trade. Importantly, these higher changes in return expectations translate into economically significant effects on trading and performance (Nguyen et al., 2018). Investor confidence can cause the mutual funds market to go up or down, which leads to stock prices to rise or fall. The capital market itself moves in response to the investors' behaviour. Ultimately, the investor confidence will translate to capital market performance (Nguyen et al., 2018).

There have been various measures used to assess investor confidence. These measures assess change in investor sentiment regarding a certain equity or security. One uses the spread in securities; narrowing spread shows investor confidence is increasing and when the spread is widening, it is indicative that investor confidence is reducing (Krisdayanti & Wibowo, 2019). The state street investor confidence index is a quantitative assessment of risk appetite or investor confidence that measures investor confidence by analyzing the actual selling and buying patterns of institutional investors (Sahore & Verma, 2017).

Hammond et al. (2022) used natural log of deposits, total equities, and share capital to measure investment confidence in banks. Pouretemadi et al. (2023) used an index of investor confidence obtained by calculating the cumulative abnormal return of stocks during the period of -1 to +1 according to the date of the profit announcement. Yang et al. (2022) proposed a method of measuring investor confidence by dividing total market trading volume with bond trading volume. Out of the different methods of measurement, the study adopts that advanced by Yang et al. (2022).

1.1.3 Equity Risk Premium

Equity risk premium is an important in cost estimation of capital and equity in both corporate valuation and finance and is also a major indicator in assessment of the overall market (Lubis & Halim, 2022). The variable reflects the decision making of an investor about the risk they expect of an economy or market and what price these risks are attached. In the process, it influences anticipated return on all risky investments (Basri et al., 2022).

Equity risk premium is the variation amidst the anticipated return comes from stock market investments that offer returns that are risk-free. The percentage by which the return of a stock beats a risk-free investment in the long term is predicted by its equity risk premium (Hodgson & Okunev, 2021). By deducting projected expected return of risk-free bonds from projected expected return on equities, one arrives at the equity risk premium (Hodgson & Okunev, 2021).

Investors receive these yields as payment for accepting the greater risk that comes with equity investments. The discrepancy between projected positive return on equities as well as the projected real return on secure treasuries is used to compute its equity risk premium (Blitz, 2022). The return an asset delivers beyond the rate of risk-free is known as the equity risk premium, commonly known as simple equity premium. This is a basic aspect in economic models that explain portfolio optimization and securities market because high-risk assets ought to have higher projected yields (Blitz, 2022).

The equity risk premium aids in setting asset allocation and portfolio return estimates (Ogwali, 2023). Larger premiums suggest that a shareholder might allocate a larger portion of their investment to equities. A project's equity risk premium is utilized to entice investors to make financial commitments. As an investment becomes riskier so

does the risk premium increase. Out of the numerous factors that investors consider prior to making an investment decision, equity risk premium is the most critical factor (Ogwali, 2023). Therefore, this study aims employ equity risk premium as its moderating variable.

1.1.3 Kenya's Corporate Bond Market

The bond market is represented by the corporate and treasury bonds. The former was introduced in the mid-1990s while treasury bonds were introduced in the mid-1980s. despite the early start of treasury bonds, they remained stagnant with the use of treasury bills from the government used to finance domestic debt (Ngugi & Afande, 2015). Overall, the bonds market continues to exhibit unreliable and erratic yields, liquidity tightness, information asymmetry, bonds under subscriptions and severe structural shortage of bond (Kimwele, Wanjare, & Omoro, 2022).

Yet, the corporate bond market lacks momentum despite bond investments becoming a major investment choice for many investors as they provide a predictable stream of income and are a means for preserving capital since principal amount is always repaid and they can counterbalance the volatility that stocks or equities hold (Muema, Omagwa, & Wamugo, 2021).

In 2018, the CMA (2018) indicated that there was a slight increase in the secondary bond market of 158.52 billion shillings against a 152.34 billion trading indicating a 4.06% increase in appetite for the bond market among corporate and individual investors (Muema et al., 2021). Additionally, there was a 72.4% acceptance in three treasury bond issues and one-year government bonds which were able to raise 63.11 billion shillings (Muema et al., 2021). The CMA identifies policy volatility as having negative effects on investor confidence in Kenya's corporate bonds market (CMA, 2023). In recent years, companies listed at the Nairobi Securities Exchange (NSE) have experienced major exit of individual shareholders in favour of other ventures (Gathekia, 2016).

The NSE recognizes that rising interest rates contributed to stocks being less attractive compared to fixed-income instruments offering higher returns (NSE, 2023). Thus, corporate bonds represent 0.15% of total bond turnover while 99.85% represent treasury bond activity (CMA, 2020). The corporate bond market exhibits low trading activity in comparison to the treasury bond market due to several factors including crowding effects

from government domestic debt, unstable and high interest rate, poor yield curves, and information asymmetry (Ringui, 2012).

The corporate bond market inefficiency is visible in the declining trade volume of corporate bonds since the only new issuance after 2015 was Acorn Holdings and Helios in 2019. Moreover, the total value of outstanding bonds in the secondary market declined from KShs. 86.8 billion for 17 issues in 2016 to KShs. 23.2 billion for 6 issues as of June 2020 (Sum & Bogonko, 2023).

According to Anyanzwa (2023), the corporate bond market is facing an investor confidence crisis due to the increasing default rates by issuers and lack of mechanisms for compensating bond holders when the issuers collapse. About a quarter of companies listed in the NSE are facing financing troubles that may need new capital to maintain dividend payments to shareholders and their operations. In 2021, Family Bank was able to raise a total of KShs. 4.42 billion against a target of KShs. 3 billion marking a subscription rate of 147.3% demonstrating renewed confidence by investors in the corporate bond market (NSE, 2021). This mixed investor confidence in corporate bond market requires further investigation and this is a gap the study fills.

1.2 Statement of the Problem

Several factors have been listed as contributing to low individual investment in Kenya's corporate bond market. The CMA identifies policy volatility as having negative effects on investor confidence (CMA, 2023). The NSE recognizes the potential impact of potential global slowdown and the domestic rising interest rates adopted to combat inflation have contributed to reduced investor confidence in the stock market (NSE, 2023).

The low investor confidence in Kenya's corporate bonds market has not received the academic and research attention it deserves. There is a crisis relating to investor confidence in Kenya's corporate bond market as most interest of investors is on short-term bonds and less on long term bonds and this is indicative of inverted yield curve that is pointing to a recession in Kenya's economy (Nyambedha, 2016). Subsequently, the Central Bank of Kenya is unable to optimally raise funds from selling bonds to the market to finance the Government of Kenya budget (Ngugi & Afande, 2015).

Nevertheless, there has been some considerable interest from researchers on investor confidence. Bitok et al. (2011) found that political, economic growth and stability, and

stock market liquidity were determinants of investor confidence. Gathekia (2016) found that forward-looking, social, and human resource accounting information disclosures did not have any effect on investor confidence while Ngwiri (2017) established that enforcement of capital market regulations had a significant moderating effect on investor confidence. Gathuru and Gudda (2019) concluded that a stable political environment creates a conducive business environment which improves investor confidence, thus increasing their investments. Mureithi, Mukhongo, and Datche (2019) established exchange rate depreciation resulted in declining stock returns thereby reduce confidence in investors. Maina, Gichana, and Otinga (2024) established that disclosing non-financial information had no association with investor confidence.

Despite this interest, some limitations can be highlighted from these studies which requires further investigation. One, these studies have used primary data collected from respondents. Two, most of the research has been on stock in listed companies. Third, some of the studies were done during periods that did not have any significant economic or social events. This is a gap that filled by conducting investor confidence on corporate bonds using secondary data from the NSE and during election cycles, economic downturns, and COVID-19 pandemic (2014 – 2024).

1.3 Research Objectives

1.3.1 General Objective

This research examined determinants of investor confidence in Kenya's corporate bond market moderated by equity risk premium.

1.3.2 Specific Objectives

These specific objectives guided the study;

- i. To assess effect of bond market volatility on investor confidence in Kenya's corporate bond market
- ii. To examine effect of bond characteristics on investor confidence in Kenya's corporate bond market
- iii. To investigate effect of bond default risk on investor confidence in Kenya's corporate bond market
- iv. To assess effect of economic growth on investor confidence in Kenya's corporate bond market

- v. To examine moderating effect of equity risk premium on the relationship between investor confidence and determinants of investor confidence in Kenya's corporate bond market

1.4 Research Questions

The study answered these research questions;

- i. What effect does bond market volatility have on investor confidence in Kenya's corporate bond market?
- ii. What effect do bond characteristics have on investor confidence in Kenya's corporate bond market?
- iii. What effect does bond default risk have on investor confidence in Kenya's corporate bond market?
- iv. What effect does economic growth have on investor confidence in Kenya's corporate bond market?
- v. What is the moderating effect of equity risk premium on the relationship between investor confidence and determinants of investor confidence in Kenya's corporate bond market?

1.5 Scope of the Study

The study was limited to the corporate bond market at the NSE. The independent variables were bond market volatility, bond characteristics, bond default risk, economic growth, and investor confidence. The moderating variable was equity risk premium. The study used corporate bond and GDP data from 2014 to 2024 implying a longitudinal research design. The study was conducted from March 2024 to May 2025.

1.6 Significance of the Study

1.6.1 Policy and Decision Makers

The findings will inform financial regulators and policymakers about determinants of investor confidence on corporate bonds. This information may guide the formulation of regulations and policies to enhance the stability and transparency of the bond market. Additionally, policymakers may use the study's insights to develop risk management strategies and early warning systems to improve investor confidence on the bonds market in the NSE.

1.6.2 Investors

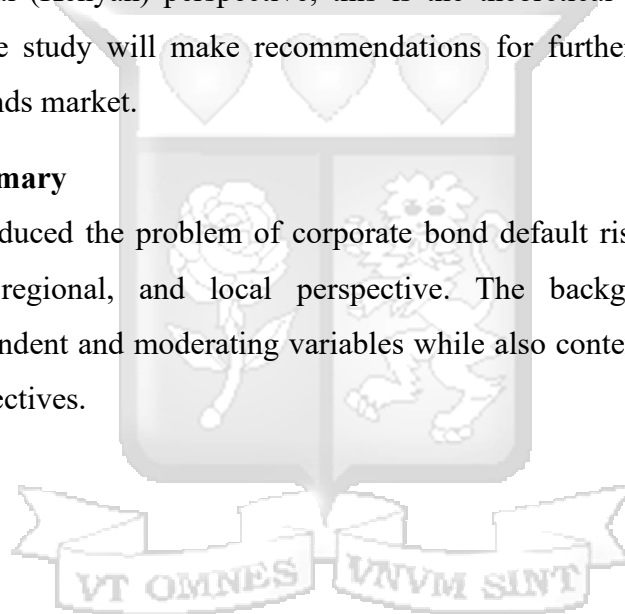
Investors may use the study's results to make more informed decisions in their investments in bond markets. Understanding the determinants of investor confidence allows investors to identify those factors that they should give attention to so as to arrive at informed decisions for their investment portfolio.

1.6.3 Research and Academia

The study contributes to the scarce research on investor confidence in Kenya's corporate bond market. Further, most investor confidence evidence has been conducted on the stock market and has not been specific to the bond market and this is this study's contribution. Additionally, theories that have been used in the past empirical studies have not been tested from a local (Kenyan) perspective; this is the theoretical contribution the study makes. Lastly, the study will make recommendations for further research on investor confidence for bonds market.

1.7 Chapter Summary

This chapter introduced the problem of corporate bond default risk presenting evidence from a global, regional, and local perspective. The background introduced its independent, dependent and moderating variables while also contextualizing the problem and stating its objectives.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the reader to the proposed theoretical underpinning where theories used in bond default risk are adapted to this research. It also presents an empirical review of studies that are pertinent to this research aligned to its research objectives.

2.2 Theoretical Review

Theoretical reviews are important for researchers to be able to identify which theories match their study. It assists in gaining better understanding of how relationships between variables can be explained (McAleese et al., 2013). The study adopted Akerlof (1990) information asymmetry theory and Keynes (1936) business cycle theory.

2.2.1 Information Asymmetry Theory

Information asymmetry was advanced by Akerlof (1970) and presents a scenario where one has more or better information than another. It is a phenomenon widely adopted in management, finance, economics, and strategic management research. The opportunities and challenges from information asymmetries were important factors in several theories including resource-dependence theory (RDT), agency theory, institutional theory, and resource-based theory (RBT). Due to its wide application, information asymmetry has different conceptualizations in research.

One, the asymmetry happens when one party has access to private and privileged information. Two, it occurs when different parties know various details as information is not uniformly distributed in the market nor is access to pertinent information that is available to all firms in a market (Bergh et al., 2019). Third, information asymmetry happens when performance and quality characteristics of applicable assets that is not common knowledge, and any information given by an owner can be cunningly biased. Fourth, it can occur when there is a lack of perfect information that shows how participants in information markets deal with lack of perfect information about each other (Bergh et al., 2019). Lastly, it happens as a source of transaction costs where partners raise the monitoring, search, and bonding costs of a transaction due to high costs of attaining information parity and inclination to behave opportunistically when given the chance (Bergh et al., 2019). The theory is relevant in these ways.

First, firms that issuing corporate bonds have access to hidden information which is not common knowledge among others and this presents the “moral hazard” scenario. Issuing firms have knowledge on their quality of resources and how this may improve or hinder their performance and therefore have an upper hand in having knowledge of default risk or probability than other market players. Second, the lack of perfect information means Incomplete and asymmetrically distributed information among buyers and sellers of corporate bonds has an effect on investor behaviour in the corporate bond market. Therefore, information asymmetry theory is a useful lens for understanding bond characteristics variable.

The information symmetry relates to the study in the following ways. One, information asymmetry can be associated with market volatility as the type of information that is available on the corporate bonds can be used by investors to make their decision whether to purchase or sell stock in the market and this may result in market volatility. Two, bond characteristics are also dependent on the information that respondents are able to access and this is also related to information asymmetry principle between the issuer of bonds and the investors. Third, bond default risk is associated with the information that is available for investors on the bond investment and this informs their decision whether to invest or not and therefore is dependent on the information asymmetry hypothesis.

2.2.2 The Business Cycle Theory

The business cycle theory was advanced by Keynes (1936) is a fundamental concept in economics. It describes the recurrent, alternating phases of expansion and contraction in an economy's economic activity. These cycles are not regular in terms of duration, amplitude, or the specific events that trigger them, but they tend to follow a general pattern. The business cycle theory typically includes the following phases: expansion (boom), peak, contraction (recession), trough, and recovery (expansion) (Aywak, 2021).

During the expansion phase, an economy experiences robust growth. Key characteristics include rising gross domestic product (GDP), increased consumer spending, strong business investments, and low unemployment. During an economic expansion, the business environment is generally favorable as firm's experience rising revenues, improved profitability, and increased cash flows (Özari, 2017). This often reduces the likelihood of corporate bond default because companies are better positioned to service their debt. Macro determinants, such as low unemployment and increased consumer

spending, can have a moderating effect on corporate bond default risk by enhancing the financial strength of bond issuers. Investors may perceive lower default risk during this phase.

The peak represents the highest level of economic activity which is witnessed by high demand, low unemployment, and rising inflation. Peaks can be associated with excessive speculation, overinvestment, or overheating in certain sectors. The peak of an economic cycle can be a mixed period for corporate bond default risk. While some companies thrive, others might take on excessive debt or engage in risky financial practices to maximize growth. This can elevate the default risk for those firms. Macroeconomic factors, such as high inflation, can contribute to moderating or exacerbating default risk depending on their effect on companies' meeting their obligations (Mahfirah & Wibowo, 2022).

The contraction phase is also described as a recession is defined by reducing economic activity manifested in rising unemployment. Negative GDP growth rates, and declining consumer and business spending. Recessions can be triggered by various factors, such as financial crises, a drop in consumer confidence, high inflation, or external shocks. During a recession, corporate bond default risk often increases. Reduced economic activity can lead to declining revenues and profitability for firms, making it harder to meet debt payments. Macroeconomic determinants, including high unemployment and reduced consumer and business spending, can significantly exacerbate default risk (Mahfirah & Wibowo, 2022).

The lowest point of the business cycle is the trough and is represented by the ending contraction phase where some form of stability on economic activity is experienced and the rate of decline in GDP slows. Troughs often signal the beginning of a recovery phase, with potential for future growth. The trough and early recovery stages can be times of heightened corporate bond default risk, as some firms may still face financial challenges even as the economy begins to stabilize. Macroeconomic determinants continue to have an impact, with government stimulus measures and improving consumer and business confidence potentially moderating default risk (Mahfirah & Wibowo, 2022).

During the recovery phase, the economy starts to rebound. Economic indicators improve, and GDP begins to grow again. Unemployment gradually decreases, and consumer and business confidence return. Factors contributing to recovery can include government

stimulus packages, improved business conditions, and increased consumer spending. The business cycle theory recognizes that these phases are a natural part of any modern economy (Mahfirah & Wibowo, 2022). While the specific timing and duration of these phases can vary widely, economic policymakers, businesses, and investors closely monitor the business cycle to anticipate and respond to changing economic conditions.

Consequently, governments and central banks may implement monetary and fiscal policies to thwart negative impact of a recession and stimulate growth during a contraction. Businesses adjust their strategies and investments based on where the economy is within the cycle, and investors make financial decisions that align with their expectations for the future state of the economy. Understanding the business cycle theory helps individuals and organizations make informed economic decisions and manage risk (Mahfirah & Wibowo, 2022).

Understanding the dynamics of the business cycle theory and effect of macroeconomic factors is crucial for bond investors and issuers. In different phases of the business cycle, bond investors shift their portfolios informed by their anticipated returns from corporate bond default risk. Issuers, meanwhile, must consider the economic environment when issuing bonds to ensure they are attractive to investors and manageable within the context of the current economic cycle. Therefore, the business cycle theory provides a basis for understanding the significance of economic growth as an independent variable.

2.3 Empirical Review of Literature

This empirical research espouses determinants of investor confidence. It reviews studies from a global, regional, and local perspective. Additionally, their objectives, research methods, findings, and limitations are given for each study.

2.3.1 Corporate Bond Market Volatility and Investor Confidence

Using a sample of G7 nations, Paule-Vianez et al. (2022) used panel data analysis to examine yields of sovereign bonds issues in those nations during the pandemic and the role of fear in this relationship. Using Google Trends search volumes were used to measure fear from the COVID-19 pandemic for a period of one year. Fear positively impacted 10-year bond yields indicating that fear had a relationship with an increase in country risk perception.

In contrast, He (2024) conducted a comprehensive analysis following a desk research approach that examined how investor expectation was influenced by environment, social, and corporate governance (ESG), market seasonality, and company announcements. Information asymmetry theory and market efficiency theory were adopted. The study found company announcements are a critical source of information that has a direct influence on investor expectation while market seasonality had cyclical trends in investor expectations. Moreover, ESG had a relationship with investors' concern.

Other studies have focused on individual investors' confidence in bonds. For instance, Wang and Nuangjamnong (2022) adopted conventional financial theory and noise of trading theory to examine how overconfidence, investor sentiment, herd behaviour, and risk tolerance on decision making among Chinese individual investors. Mixed methods result indicating herding had something to do with investor sentiment.

Similarly, Ngwiri (2017) using the efficient market hypothesis (EMH) examined the relationship between investor confidence and financial ethics among NSE members. The individual and institutional investors were recruited into the sample via purposive sampling under a descriptive research design. The enforcement of regulations in a capital market had a significant moderating effect on investor confidence.

In contrast, Wanjau (2018) used an explorative research design sought to examine influence of individual factors, regulatory framework, and market factors on investor's sentiment anchored on EMH and behavioural finance theory. Purposive sampling was adopted to select those private investors who had invested in more than one Counter in NSE and were actively trading. There was a positive relationship between individual factors, regulatory framework, market factors and investor sentiment.

Kihui (2010) sought to establish determinants of investor confidence in Automated Trading System (ATS) at the NSE using descriptive research that selected 50 MBA students as surrogate investors in the NSE by way of systematic sampling procedure. The research adopted Dow theory, International Trade theory, and Modern Portfolio Theory (MPT). Investor confidence in ATS was influenced by low corruption, good transparency, effective regulations, and better auditing.

Kilonzo (2020) did an examination into how voluntary accounting disclosure influenced investor confidence among 47 non-financial firms in the NSE anchored on financial,

management, and economic theories. Causal design was used and panel data collected and analysed. Forward-looking, social accounting, and human resource accounting information disclosures had no impact on investor confidence while value added statements disclosures had positive effect.

2.3.2 Bond Characteristics and Investor Confidence

Some studies have adopted a longitudinal research design in their examination on bond characteristics and investor confidence. For example, Hoffmann and Post (2016) study examined determinants explaining confidence leads to trading using data from a brokerage firm 1,376 clients. The findings indicated intuitive judgements influenced investor confidence. Similarly, Hammond et al. (2022) used agency theory to assess how going concern, reporting, corporate governance, and investor confidence in a sample of banks in selected African nations between 2011 and 2020. The results revealed that going concern, corporate reporting, and governance had a direct influence on investor confidence.

Similarly, Bertuah and Nurlinda (2019) tested financial information in forming investor confidence among manufacturing companies listed at the Indonesian Capital Markets Directory selected via purposive sampling method of their 2008 – 2017 financial reports. These companies were distinguished by their reporting of a positive or negative operating profit. The study adopted utility theory, Belief Adjustment theory, Strategic reference point theory, Signalling theory, and Prospect theory. It was revealed that investors gave a negative response when they had access to bad news of a company, they have invested in.

In Thailand, Pulpet et al. (2019) used data from 2006 to 2015 assessed composite index of 64 government bonds efficiency. The findings revealed that depth, tightness, and transparency were the most significant efficiency criteria for investor confidence. Bonds with larger issue sizes were efficient than smaller bonds while those with longer maturities were more efficient than those with less maturities. Government bonds had lower risk perceptions in comparison to other bonds thus exhibited investor confidence.

In contrast, Modibbo and Tijjani (2020) investigated how corporate ownership structured was related to investor confidence using data from 14 deposit money banks adopting correlational research design in Nigeria from 2010 to 2019. Property right theory, institutional theory, and agency theory guided the research. Fixed effect regression

revealed that institutional ownership had positive effects on investor confidence while block and insider ownership had negative effect with investor confidence. Lastly, foreign ownership had no relationship with investors' confidence.

Similarly, Ngugi and Afande (2015) used data from 48 listed companies in the NSE to examine corporate financing via the bond market employing stratified random sampling. In each stratum, 50% of listed firms were selected and 5 respondents were selected from each company and administered to a self-administered questionnaire. The study established that quality information disclosure improved investor confidence.

Ndung'u and Onyuma (2024) investigated how investor confidence influences the growth and development of Real Estate Investment Trusts (REITs) in Kenya. A predictive correlational research design that targeted property developers, investment bankers, stockbrokers, and fund managers. Structural Equation Modelling (SEM) demonstrated that investor confidence had a positive influence on growth and development of REITs. Investor confidence about risk and return influences the growth of the REITs market in Kenya, leading to REITs slow development.

2.3.3 Bond Default Risk and Investor Confidence

Some studies have adopted longitudinal research method, for instance, In China, Jiaye (2023) assessed investor sentiment and default risk anchored on behavioural finance theory. The sample consisted of 145 real estate companies that issued corporate bonds from 2012 to 2022. The research defined Z-score of companies as default risk. In addition, we obtained a comprehensive index of investor sentiment across the market from China State Administration for Market Regulation (CSAMR) as a linear combination to measure market participation and default risk. The empirical results showed that this emotional factor is robust for out of sample testing. In addition, the investor sentiment composite index shows a correlation with the default risk.

Similarly, Saadaoui et al. (2022) using signaling theory and information asymmetry theory to understand credit rating announcements on bond market liquidity in nine emerging nations. Daily data from 2009 – 2017 on sovereign bonds was analysed and the findings' indicated ratings were a source of information for the bond market among investors; conveyed rating agencies notifications send signals of bond liquidity and a means to attract issuers, assist financing, and convince the market.

Muldur, Kandir, and Onal (2019) investigated how investor sentiment contributed to bond yield spreads using data from 1997 to 2014 analysed by vector autoregressive (VAR) analysis. Investor sentiment had a negative effect on yield spread with the spread level of the earlier period having an effect on the present period sentiment.

Using data from 2016 to 2022, Kurbonov, Nasriddinov, and Mulbah (2024) research focused on the Chinese bond market anchored on information asymmetry theory. The regression analysis and heterogeneity tests revealed credit rating changes had an influence on bond spread with downgrades widening them and upgrades narrowing spreads. Moreover, adjustment related to firm performance and external support also affects spreads indicating significance of credit ratings management for issuers to enhance investor confidence.

In contrast, dehaan, Li, and Watts (2023) used corporate bond data in the U.S. using a desk research design. The review revealed that retail investors screened bonds and thereafter bought high-yielding bonds in each rating level. This means that investors systematically traded in the opposing direction of accounting basics by buying in advance of credit defaults and downgrades and generated negative future returns. Overall, retail bond investors mislearn from pricing and it becomes difficult to reconcile with standard notions of rationality.

Going in a different direction, Gurusamy et al. (2016) assessed how information from credit rating agencies influenced retail equity investor participation in the stock market using descriptive cross-sectional research design. Multiple regression revealed credit rating filled the information gap for investors and served as a public good. The adequate disclosure of relevant information was highly beneficial to investors.

Similarly, Tunio, Zaman, and Muzammil (2021) descriptive cross-sectional research was on perception of investors through credit rating agencies on investment beliefs gathering information from 160 investors via a self-structured questionnaire. The data analysis involved a one-way ANOVA and correlation analysis. The researcher found investors' perceptions about credit ratings were positively related they think a good credit rating is important to take the investment decision but, do not strongly rely on credit rating.

2.3.4 Economic Growth and Investor Confidence

In Iran, Rahimian, Renani, and Ghobadi (2022) assessed the relationship between economic and monetary uncertainty with investor confidence using data from 2001 and 2018. The data was analysed using a multivariate and Granger – causality method anchored on Confidence theory. The findings showed no relationship between investor confidence in financial markets and money growth uncertainty.

Using panel data on 41 countries, Guo and Shan (2020) assessed how economic growth was influenced by business and consumer confidence with data from 1991 to 2017. Investor confidence influenced economic growth positively; investor confidence had bigger impacts in a recession by increasing the impact of fiscal and monetary policies. Similarly, Agyemang et al. (2017) using panel data between 2009 – 2013, found that accountability and voice, rule of law, political stability, and property rights have a positive effect on investor confidence among African economies.

In contrast, Bitok et al. (2011) found that economic growth indicated an increase or decrease in investor confidence in Kenya while Mureithi et al. (2019) examined the macro-economic factors affecting companies listed on the NSE performance. A cross-sectional research design was used and it established exchange rate depreciation contributed to a decline in stock returns and that stability in currency exchanges to achieve investor confidence.

Moving away from primary research methods, Nguyen et al. (2024) explored major constraints to green bond issues in Vietnam exploiting secondary data using a set of fuzzy set methods. The research found that lack of credibility and quality of green projects were more important constraints to investor confidence in the development of green bonds.

2.4 Summary of Research Gaps

There is a wide knowledge gap that exists in terms of factors influencing investor confidence in Kenya's corporate bond market. For example, most research on investor confidence has been on treasury bonds, government bonds, and company stocks (Kihui, 2010; Ngugi & Afande, 2015; Kilonzo, 2020). The paucity of research on investor confidence on corporate bond market is a gap this study filled.

Conceptually, studies have examined company announcements, crisis events, and company disclosures (Díaz, Esparcia, & López, 2022; Contractor, Balli, & Hoxha, 2023)

on investor confidence and there is a gap in terms of the effect of corporate bond market liquidity on investor confidence that this research filled. The contextual gap that emerges from existing research indicates that most studies on corporate bond market and investor confidence have been conducted in Western markets, Asian markets, and European markets (He, 2024; Hodgson & Okunev, 2021; Soenen & Vennet, 2022). There is less evidence of studies in the local and regional markets due to the relatively low investments in corporate bond markets requires further investigation.

In terms of methodological gaps, other research has adopted primary sources of data, collected data from respondents, used cross-sectional research designs (Begum & Kamal, 2018; Tunio et al., 2021; Gurusamy, Vengatesan, & Hemavathy, 2016). Nonetheless, there is need for longitudinal research that uses time series data to examine this relationship. Additionally, past studies have not considered equity risk premium as a moderating variable when studying determinants of investor confidence in the bond market in Kenya or when studying determinants of bonds uptake in Kenya and hence a knowledge gap that needs further investigation. Table 2.2 shows a summary of reviewed literature and the emerging gaps in each of these studies and how this study filled this gap.

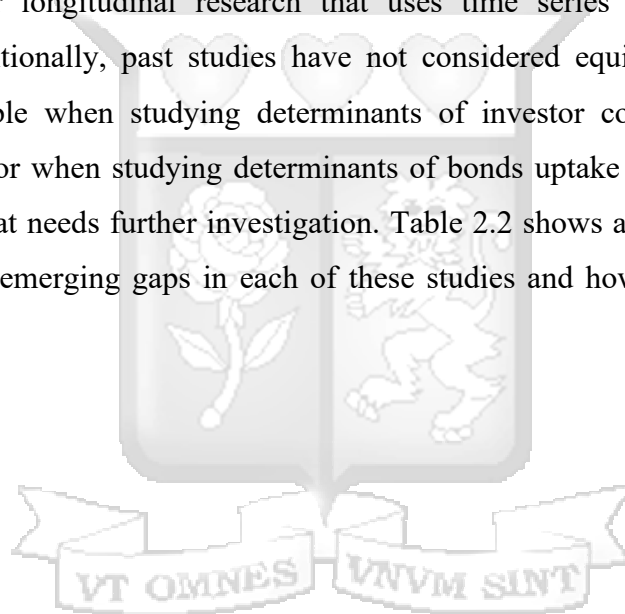


Table 2.1: Summary of Research Gaps

Author & Date	Topic	Methodology	Main findings	Gaps	Study filling gap
Michelson et al. (2022)	The Factors Affecting Corporate Bond Spreads	Pre-posttest research design	inflows to mutual funds contributed to an increase in corporate bond vulnerability (default risk).	The study compared pre and post crisis periods	The study adopts a cross-sectional research design
Begum & Kamal (2018)	Exploring the key factors affecting development of bond market in Bangladesh	Cross-sectional research design	An effective market infrastructure reduced corporate bond default risk.	The sample was generalized from financial institutions	The sample is limited to NSE intermediaries
Upadhyay (2018)	Predicting Probability of Debt Default: A Study of Corporate Debt Market in India and other Countries	Longitudinal research design	Market variables had a smaller role in explaining corporate bond default probability	The sample consisted of data from U.S, U.K., and India	The data is limited to Kenya
Castañeda et al. (2017)	Spreads Determinants of Corporate Bonds in State-Owned Companies. The CODELCO Case	Case study design	Declining prices of copper had a negative relationship with bond spread	The study was limited to one company	The study includes corporate bonds from several companies
Alfeus et al. (2023)	Stochastic Default Risk Estimation Evidence from the South African Financial Market	Desk / literature review research	The business cycle had an effect on corporate bond default risk	The study was limited to a literature review design	This study adopts primary sources of data in a cross-sectional research design
Kim et al. (2019)	Default Risk Characteristics of Construction Surety Bonds	Case study research	Additional information about a company starting a new construction project can contribute to indicating default risk	The study was limited to case study of a construction surety bond	A cross-sectional study incorporating different bonds in the market

Jumbe & Gor (2018)	Examining the Impact of Debt Maturity Time, Expected Return and Volatility on Probability of Default in Credit Risk Modelling: The Case of Merton and MKMV Models	Desk research	The longer the maturity the greater the chances of default risk	The study was limited to a literature review design	This study adopts primary sources of data in a cross-sectional research design
Che-Yahya et al. (2016)	Determinants of Corporate Bond Yield: The Case of Malaysian Bond Market	Cross-sectional research design	Bond maturity, coupon payment, trading frequency, issuer's rating, debt to equity ratio and return on equity ratio are significant determinants	The study was limited to secondary data	The study will use primary data sources from NSE intermediaries
Yu et al. (2023)	Research on Corporate Bond Risk Premium and Default Based on Voluntary Dual Ratings Selection	Longitudinal research	Credit rating, dual rating, and bond issuance scale influence default risk	The study was limited to secondary data	The study will use primary data sources from NSE intermediaries
Nguyen & Nguyen (2022)	Uncertainty and corporate default risk: Novel evidence from emerging markets	Longitudinal research	Uncertainty is positively associated with firm risk-taking behaviour	The study was limited to secondary data	The study will use primary data sources from NSE intermediaries
Cayón & Perilla (2018)		Comparative research design	retained earnings, total debt/total assets, inventories, and fixed assets determined corporate bond spreads	The study was limited to secondary data	The study will use primary data sources from NSE intermediaries
García et al., (2022)	Corporate board and default risk of financial firms	Case study design	bank size, firm profitability and board size exerted influence on default risk	The study was limited to secondary data	The study will use primary data sources from NSE intermediaries

Zeyang (2021)	A Stepwise Regression Analysis of the Risk of Corporate Debt Default	Literature review/desk research	Nature of property rights was positively associated with corporate bond risk	The study was limited to a literature review design	This study adopts primary sources of data in a cross-sectional research design
Song & Xie (2022)	Evaluation and Influencing Factors of Default Risk and Interest Rate Risk for Bonds	Longitudinal research	Profitability, debt paying ability (solvency) and operating capacity of the enterprises influence bond default risk	The study was limited to secondary data	The study will use primary data sources from NSE intermediaries

Source: Researcher (2025)



2.5 Conceptual Framework

Figure 2.1 shows the perceived relationship between determinants (bond market volatility, bond characteristics, bond default risk, and economic growth) of investor confidence as the dependent variable. The moderating variable is equity risk premium.

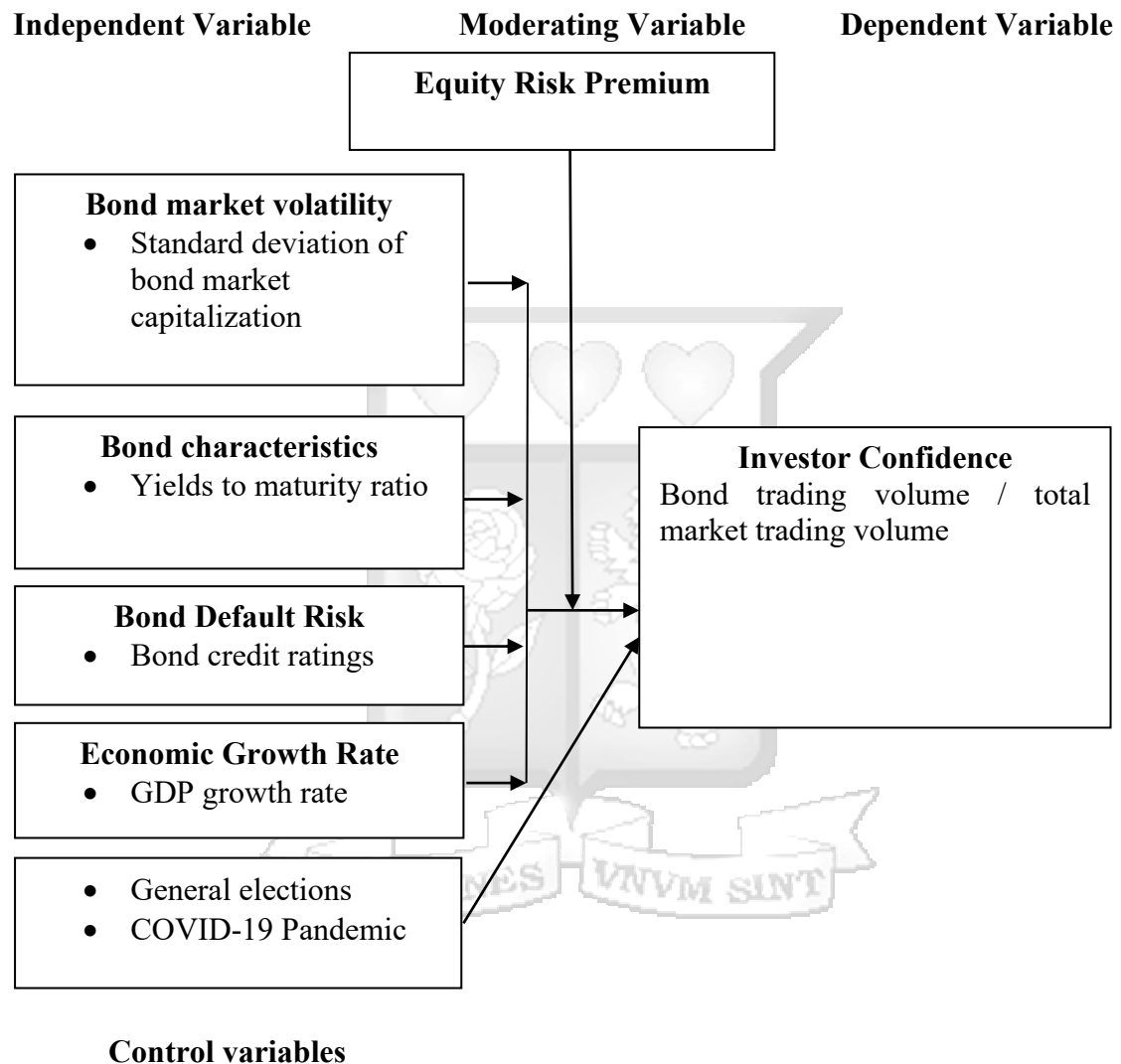


Figure 2.1: Conceptual Framework

Source: Researcher (2025)

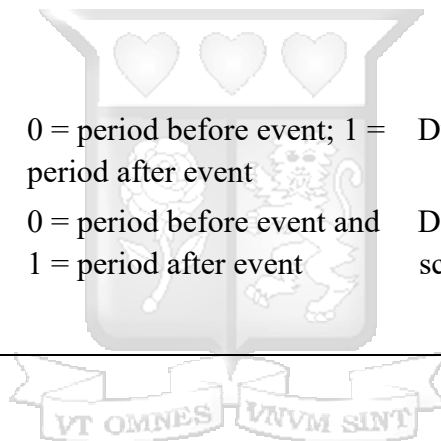
2.6 Operationalization of the Variables

Table 2.2: Operationalization of Research Variables

Variable	Variable definition	Variable Measurement	Scale	Supporting literature	Supporting theory
Bond market volatility	This refers to the unpredictable, sharp, price movements of corporate bonds	Standard deviation of bond market capitalization	Ratio scale	He (2024); Paule-Vianez et al. (2022)	Business cycle theory
Bond characteristics	This refers to the unique features of corporate bonds offered in the market	Bond yields to maturity ratio	Ratio scale	Bertuah & Nurlinda (2019); Modibbo & Tijjani (2020)	Information asymmetry theory
Bond default risk	This refers to the probability that the bond issuer might fail to make the required payments of its principle or interest.	Bond credit ratings	Ratio scale	Gurusamy et al. (2016); dehaan, Li, and Watts (2023)	Information asymmetry theory
Economic growth rate	This refers to the change in value of goods and services produced within for a specific period in comparison to an earlier period in Kenya.	GDP growth rate	Ratio scale	Rahimian et al. (2022); Nguyen et al. (2024)	Business cycle theory

Equity risk premium	This refers to excess return that investing in the stock market provides over a risk-free rate.	Equity risk premium	Ratio scale	Basri et al. (2022); Lubis & Halim (2022)	Information asymmetry theory
Investor confidence	This refers to willingness of investors to undertake financial activities in the corporate bond market by leveraging all available opportunities.	Bond trading volume / total market trading volume	Ratio scale	Yang et al. (2022)	Information asymmetry theory
General elections	This refers to the nation's general elections	0 = period before event; 1 = period after event	Dummy		Business cycle theory
COVID-19 pandemic	This refers to the duration during which pandemic restrictions existed	0 = period before event and 1 = period after event	Dichotomous scale		Business cycle theory

Source: Researcher (2025)



2.7 Chapter Summary

This chapter presented the study's review of literature which was presented in the theoretical framework, empirical review of literature, summary of literature and research gaps, the conceptual framework, and operationalization of variables.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights its research philosophy, research design, target population, sample, sample size, data collection, research quality, data analysis, and presentation.

3.2 Research Philosophy

According to Kinyanjui (2012) there are two (2) main types of research philosophies namely, positivist and interpretivist. Positivist perspective observes that reality is observable in an objective fashion with limited interference in the subject under study. The interpretivist philosophy argues that a phenomenon can only be understood through a subjective interpretation through interventions. Both philosophies have their unique strengths and weaknesses. Therefore, the study adopted the positivist research philosophy as it used objective and factual data to perform statistical analysis between determinants and investor confidence in Kenya's corporate bonds market.

3.3 Research Design

This study adopted a longitudinal research design that uses time series data on corporate bonds from 2014 to 2024. A longitudinal study gathers information on a sample in repeated intervals during a long period of time. Therefore, investor confidence on corporate bond was assessed using a quarterly time interval.

3.4 Target Population

The bond market in the NSE consists of corporate bonds, treasury bonds, green bonds, M-Akiba bonds, and government bonds. Out of these, the data on corporate bonds represented the population. Furthermore, the target population was described as the corporate bond data on market volatility, bond characteristics, bond default risk, economic growth, and equity risk premium between 2014 and 2024.

3.4.1 Sample Size

The study collected data on the corporate bond market for the period from 2014 to 2024 and this represented the sample size for the study. This included data on market volatility, bond characteristics, bond default risk, economic growth, and equity risk premium between 2014 and 2024 and these resulted in a dataset of 240 observations.

3.4.2 Sampling Technique

The purposive sampling technique which is based on discretion by a researcher to select the sample size. The method belongs to the non-probability methods of sampling where inclusion of data into a study cannot be explained randomly or by way of probability. Therefore, data for each variable was captured for the last 10 years (2014 – 2024). The decision to purposefully select this period was to include the COVID-19 pandemic and two election cycles.

3.5 Data Collection Instruments

The study used secondary data which is available from several sources. The data was accessed from the NSE, CBK, and the CMA. The data was collected annually from 2014 to 2024. The data on market volatility, bond characteristics, bond default risk was downloaded from the NSE website while data on economic growth was downloaded from the CBK.

3.6 Data Analysis and Presentation

The STATA software was used to perform the data analysis which was done in several phases as follows. The first phase began with performing descriptive statistical analysis to summarize the variables and was followed by undertaking trend analysis to show the change of variables during the period under review (2014-2024). Before moving into further analysis, diagnostic tests were performed and these included checking for normality, multicollinearity, and heteroscedasticity.

3.6.1 Normality Test

The statistical distribution shows how data values spread across the dataset so researchers can determine the likeliness of sample outcomes representing their source population (Khatum, 2021). The Jarque-Berra test was performed to determine if the data met threshold for a normal distribution.

3.6.2 Multicollinearity Test

Multicollinearity manifests itself in a dataset when high correlations exist between independent variables (Shrestha, 2020). This then can cause some of the important variables in research to be insignificant while increasing the variance between regression coefficients leading to instability that causes interpretation problems (Shrestha, 2020). Using the variance inflation factors (VIFs) were used to confirm whether there exists any multicollinearity.

3.6.3 Heteroscedasticity Test

Heteroscedasticity becomes present when variance of errors is different across observations thereby rendering estimate of the standard errors inconsistent by being too small or too large. This results in incorrect inferences (Rosopa, Schaffer, & Schroeder, 2013). This is a violation of linear regression statistical assumption (Astivia & Zumbo, 2021). To check for any heteroscedastic data, the Breusch-Pagan Lagrange Multipliers (LM) test was used.

3.6.4 Stationarity Test

Stationarity implies that a time series dataset has a constant mean and variance. Most of econometric models assume stationarity of data, however that is not always the case since most time series data exhibit non-stationarity which leads to spurious results; thus, it is vital check for stationarity. The Augmented Dickey Fuller test was used to check for stationarity. Under the null hypothesis of no stationarity, the ADF T-statistic should exceed the critical value at 5% irrespective of the sign and the p-value should be below 0.05 to indicate stationarity (Guo, 2023).

3.6.5 Residual Diagnostic Tests

To ensure model validity, residuals from the Granger causality model were tested for serial correlation using the Breusch-Godfrey LM test and for normality using the Jarque-Bera test. It was necessary to choose the appropriate lag length before applying the ARDL bounds test. The choice of lag length should be exercised with caution; as inappropriate lag length can lead to biased results.

This was followed by performing Johansen Cointegration test was performed to determine if the variables in the dataset are cointegrated and is based on a Vector Autoregressive (VAR) model that provides information on the number of cointegrating relationships (Naidu, Pandaram, & Chand, 2017). The final phase of the analysis was performing multiple linear regression based on the following econometric model regression:

$$\text{LNIC}_t = \text{DLNBMV}_t + \text{LNBC}_t + \text{BDR}_t + \text{LNEGR}_t + \text{COVID}_t + \text{GE}_t$$

Where;

$LNIC_t$ = Natural logarithm of investor confidence

$DLNBMV_t$ = Natural logarithm of bond market volatility

$LNBC_t$ = Natural logarithm of bond characteristics

BDR_t = bond default risk

$LNEGR_t$ = Natural logarithm of the economic growth rate

$COVID_{19}$ = Corona Virus Pandemic (dummy variable)

GE = General election dummy variable

t is the quarterly time series data

3.7 Ethical Consideration

The ethical responsibility of this study was guaranteed by acquiring ethical approval (Appendix 3) from the Strathmore University Institutional Ethics Review Committee (SU- IERC) and obtaining a research permit (Appendix 4) from the National Commission for Science, Technology, and Innovation (NACOSTI).

3.8 Chapter Summary

The positivist research paradigm was selected for this study following a longitudinal research design in which data was collected from 2014 to 2024. The analysis was done using descriptive statistical methods followed by performing diagnostic tests before running the regression and correlation analysis. Ethical approval and a research permit were obtained before collection of data.

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the findings for both descriptive and inferential analysis and discusses them further. This analysis is based on examining determinants of investor confidence in Kenya's bond market. These determinants entail bond market volatility, bond characteristics, bond default risk, economic growth, that are moderated by equity risk premium.

4.2 Descriptive Statistics

Descriptive statistics are essential tools for summarizing and characterizing datasets, providing valuable insights into their distribution and relationships (Lee & Roberts, 2020 & Kaur et al, 2018). They encompass various measures, including central tendency (mean, median, mode), dispersion (range, standard deviation, variance), and shape (skewness, kurtosis). Descriptive statistics were carried on the all the variables on raw data of their proxies. Where investor confidence (IC), bond market volatility (BMV), bond characteristics (BC), economic growth (EGR) and equity risk premium (ERP) continuous variables while bond default risk (BDR) was a dummy variable, 1 indicated a rating of B+, 2 indicated a rating of B2, 3 indicated a rating of B3, and 4 indicated a rating of B-.

Table 4.1: Descriptive Statistics

	IC (%)	BMV	BC (%)	BDR	EGR (%)	ERP (%)
Mean	0.407833	2194.617	11.26034	1.600000	5.120000	-11.27638
Median	0.144918	2175.663	12.21932	1.000000	5.500000	-11.41869
Maximum	2.409091	2795.443	16.72625	4.000000	10.300000	6.462563
Minimum	0.000524	1419.633	3.750000	1.000000	-4.100000	-26.11720
Std. Dev.	0.521262	304.6289	2.965132	1.032796	2.555156	7.242658
Skewness	1.966581	-0.276908	-1.256118	1.425613	-1.897048	0.339503
Kurtosis	7.131703	3.045043	4.194776	3.508876	8.880607	3.016147
Jarque-Bera	54.23456	0.514568	12.89803	13.98075	81.62785	0.768851
Probability	0.000000	0.773148	0.001582	0.000921	0.000000	0.680842
Sum	16.3133	87784.68	450.4136	64.00000	204.8000	-451.0553
Sum Sq. Dev.	10.59684	3619152.	342.8882	41.60000	254.6240	2045.788
Observations	40	40	40	40	40	40

Source: (Authors, 2025)

Table 4.1 indicates that were 40 per variables. Where investor confidence (IC) was the dependent variable that was measured proportion of total market trading volume, bond market volatility (BMV) was the first independent variable that was proxied by

bond market capitalization, bond characteristics (BC) was the second independent variable that was measured by yields to maturity ratio, bond default risk (BDR) was the third independent variable that was measured by bond credit rating, economic growth (EGR) was the fourth independent variable that was measured by gross domestic product (GDP) growth rate, while equity risk premium (ERP) was the moderating variable.

Investor confidence proxied as bond trading volume as a proportion of total market trading volume had a mean of 0.407833 per cent (table 4.1), indicating that the issuance of corporate bond is negligible as more investors prefer government bonds, the maximum value of investor confidence being 2.41 percent which is also still low. Bond market volatility (BMV) proxied as standard deviation of bond market capitalization had a mean of 2194.617, implying extremely high fluctuations in the total value of outstanding bond over time. Additionally, bond characteristics (BC) proxied as yields to maturity ratio had a mean of 11.26034 per cent, implying that bonds are relatively risky and expensive in issuance; thus, investors expect high returns in compensation for credit, inflation and liquidity risks. Furthermore, bond default risk (BDR) measured by bond credit rating had a mean of 1.6, indicating that the most common rating during the study period was B+, implying a highly speculative credit that meets obligations but a risk hence constraining access to low-cost financing. Additionally, economic growth (EGR) measured GDP growth rate had a mean of 5.12 per cent indicating a moderate expansion that signals economic stability that is a catalyst for investment. Equity risk premium had an average of -11.28 percent which implied low confidence in equities.

Skewness, Kurtosis and Jarque-Berra are used in checking for normal distribution of a continuous or time series variable. Skewness indicates the asymmetry of distribution, while Kurtosis indicates the peak. Positive skewness implies that the mean is greater than the median, while negative skewness indicates that the mean is less than the median. Therefore, a skewness value of less than two, a kurtosis values of less than six, confirmed Jarque-Berra probability of more than 0.05 per cent implies that a dataset is normally distributed (Mantalos, 2011). Table 4.1 indicates that investor confidence had positive skewness of 1.97, a kurtosis of 7.13 and a Jarque Berra p-value of 0.0000 thus it was not distributed normally. Bond market volatility had a skewness of -0.28, a kurtosis value of 3.05 and a Jarque Berra p-value of 0.78

implying it was normally distributed. Bond characteristics had a skewness of -1.25, kurtosis of 4.19 and a Jarque Berra p-value of 0.0016, hence it was not distributed normally. Economic growth had had a skewness of -1.90, kurtosis of 8.89 and a Jarque Berra p-value of 0.000, hence it was not distributed normally. Bond default risk was a dummy variable thus it was not tested for normality. Equity risk premium had a skewness of 0.34, a kurtosis value of 3.02 with a Jarque Berra p-value of 0.68 implying it was normally distributed. In correcting for normality, all the continuous variables were transformed into natural logarithms (Janacek & Swift, 1990) before inferential statistics were undertaken.

4.3 Trend Analysis

Trend analysis is a statistical method used in recognizing current patterns during the study and predicting future performance of continuous variables based on historical data (Kiran, 2019). Therefore, in study, graphical line analysis was used in depicting the trend of all the continuous variables (IC, BMW, BC, EGR and ERP).

4.3.1 Trend Analysis for Investor Confidence

Figure 4.1 displays results for investor confidence trend from 2014 to 2024 showing that there was a sharp increase in investor confidence between 2015 and 2016 and this was peak has not been reached since. The investor confidence has fluctuated between 2016 and 2020. Between 2020 and 2023, there has been limited movement in investor confidence in the corporate bond market.

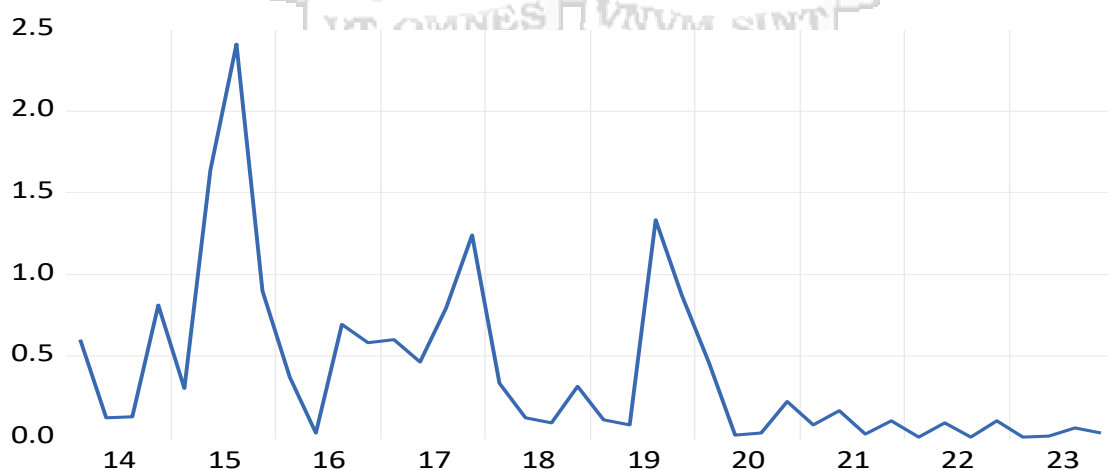


Figure 4.1: Investor Confidence in Kenya's Corporate Bond Market

Source: (Authors, 2025)

The performance in investor confidence indicated substantial variability (Fig 4.1), witnessing a significant peak in 2015 due to higher investments, followed by a period

of volatile but declining performance up to 2019, then a drastic fall to negligible confidence from 2020 to 2023.

4.3.2 Trend Analysis for Bond Market Volatility

Figure 4.2 displays results for bond market volatility trend from 2014 to 2024 showing that there was a growth between in the first year of analysis and slow decline to 2017 from where a significant increase was noted and this fluctuated until 2021 and has been on a continued decline to 2023.



Figure 4.2: Trend Analysis of Kenya's Corporate Bond Market

Source: (Author, 2025)

4.3.3 Trend Analysis for Bond Characteristics

Figure 4.3 displays results for bond market volatility trend from 2014 to 2024 shows that bond characteristics was showing an upward trajectory but has steadily declined since 2016 and would show some recovery in 2020 but this was followed by a duration in which these characteristics has been on a declining trend.

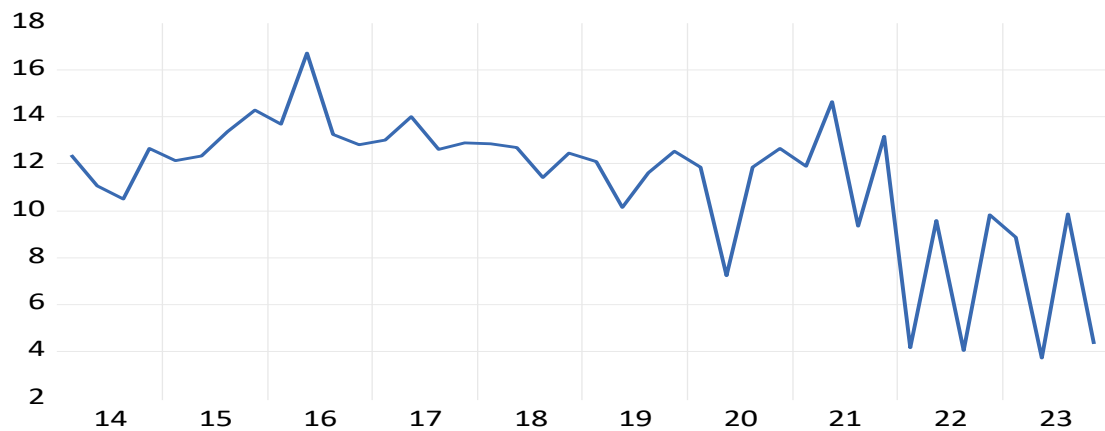


Figure 4.3: Trend Analysis of Kenya's Corporate Bond Characteristics

Source: (Author, 2025)

4.3.4 Trend Analysis for Bond Default Risk

Figure 4.4 displays results for bond default risk trend from 2014 to 2023 that was dummy variable where 1 indicated a rating of B+, 2 a rating of B2, 3 a rating of B3 and 4 a rating of B-. Between 2014 to 2017, the bond risk rating was B+ (speculative), the bond risk rating was B2 in 2018, followed by again B+ from 2019 to 2021, then a B- in 2022 and a B3 in 2023.

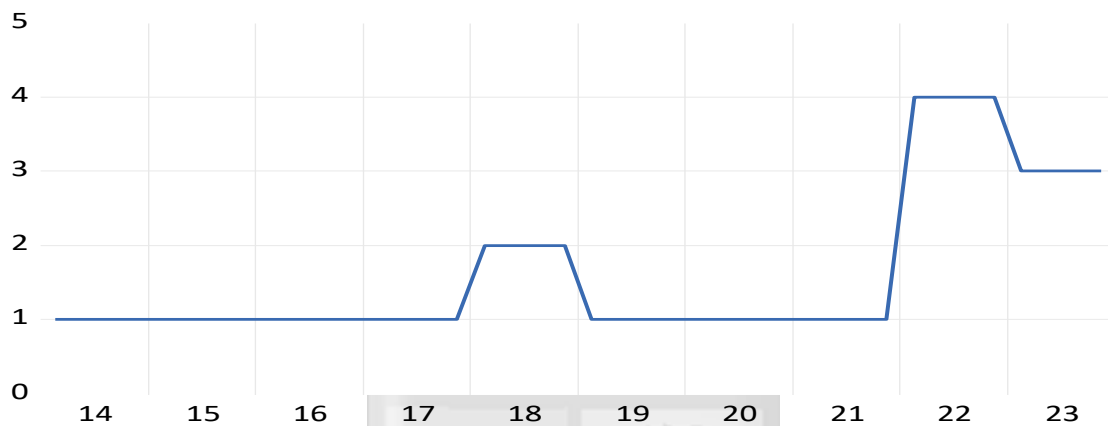


Figure 4.4: Trend Analysis of Kenya's Corporate Bond Default Risk

Source: (Author, 2025)

4.3.5 Trend Analysis for Economic Growth

Figure 4.5 illustrates economic growth remains relatively stable between from 2014 to 2019, varying slightly around 5 per cent. A sharp economic contraction is witnessed in 2020 due to worldwide impact of COVID-19 pandemic, while rapid recovery in 2021 that is followed by declining moderate growth in 2022 and a slight expansion in 2023.

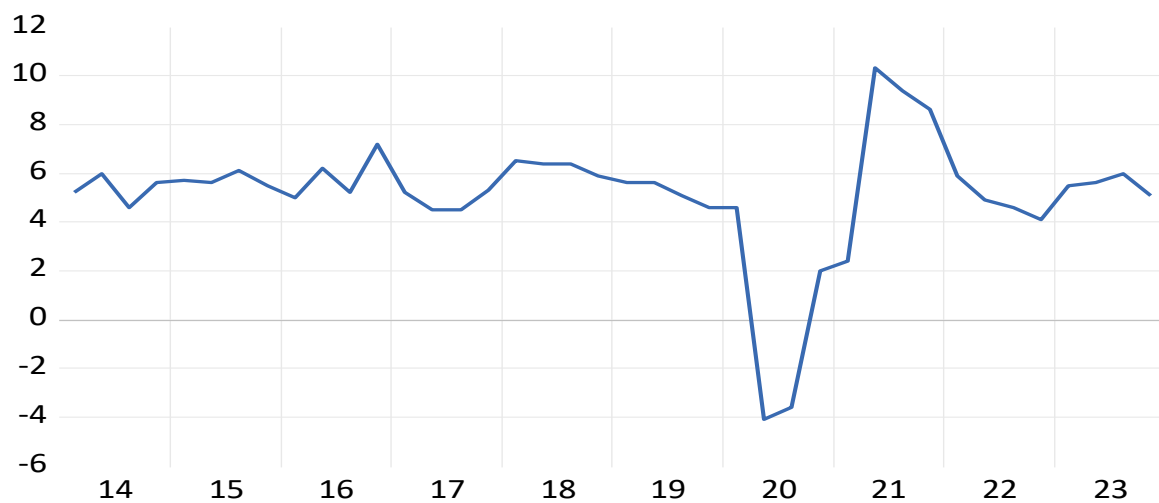


Figure 4.5: Trend Analysis of Kenya's Economic Growth

Source: (Author, 2025)

4.3.6 Trend Analysis for Equity Risk Premium

Figure 4.6 illustrates that equity risk premium was highly volatile and negative, only witnessing a positive value in 2017. Between 2014 to 2017, negative volatility represented the equity risk premium and it continued to fluctuate until 2020 where there was a sign of recovery but it has only declined since 2021.

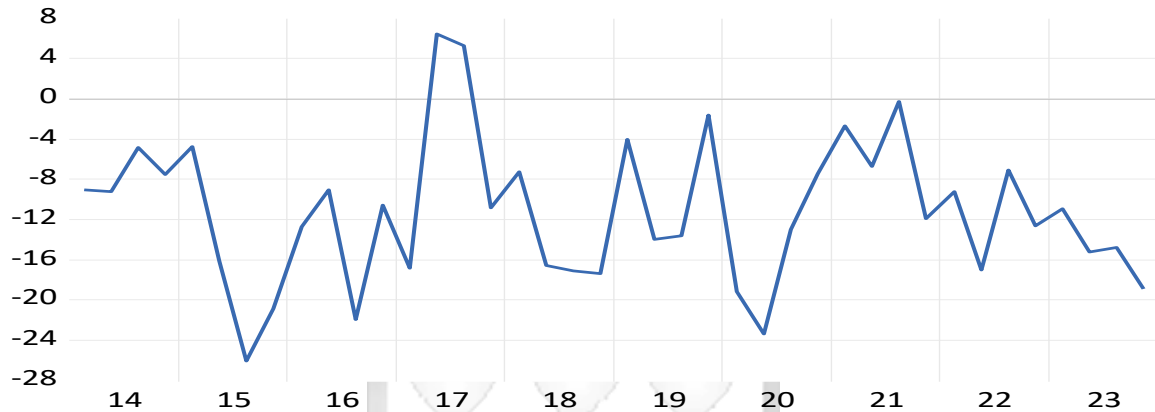


Figure 4.6: Trend Analysis of Kenya's Equity Premium Risk Trend

Source: (Author, 2025)

4.4 Diagnostic Tests

Diagnostic tests were performed to check whether the model's conformity to OLS assumptions namely: normality, multicollinearity, heteroscedasticity and autocorrelation.

4.4.1 Normality Test

The Jarque-Berra test was applied and its decision criteria are normal distribution exists when p-value is greater than 0.05 and vice versa. Figure 4.7 indicates the data fit a normal distributed with a Jarque-Berra p-value of $0.160965 > 0.05$.

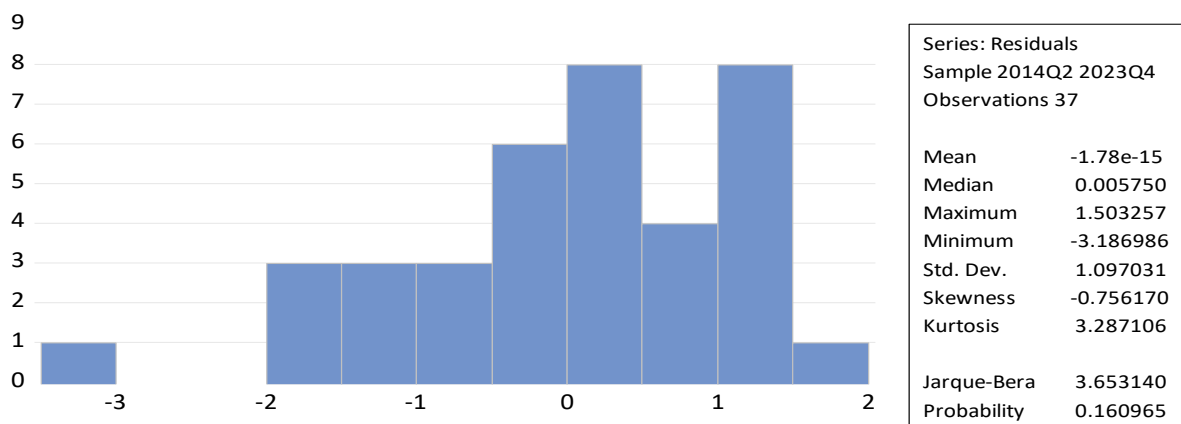


Figure 4.7: Normality Test Results

Source: (Author, 2025)

4.4.2 Multicollinearity Test

The study checked for multicollinearity among the independent variables using the Variance Inflation Factors (VIF) based on the decision criteria that if centred VIF are less than 10, then multicollinearity is non-existent. Table 4.2 shows VIF values of all the variables was less than 10, thus multicollinearity was presumed to be absent in the regression model.

Table 4.2: VIF Multicollinearity Test

Variable	Coefficient Variance	VIF	Interpretation
Bond market volatility	7.868938	1.501588	No multicollinearity
Bond characteristics	0.564929	2.331496	No multicollinearity
Bond default risk	0.105214	3.611271	No multicollinearity
Economic growth	0.413988	1.093673	No multicollinearity
General elections	0.266604	1.419095	No multicollinearity
COVID 19	0.226042	1.669941	No multicollinearity

Source: (Authors, 2025)

4.4.3 Heteroscedasticity Test

The study employed the Breusch-Pagan-Godfrey test to ascertain whether the residuals were heteroscedastic, with a null hypothesis assuming the absence of heteroscedasticity. The null hypothesis is rejected if the probability Chi-square of the observed R-squared is less than 0.05. Table 4.3 shows the heteroscedasticity results. The probability Chi-Square (6) of the observed R-squared was $0.9702 > 0.05$, thus there was no heteroscedasticity in the model, as the null hypothesis of the test was not rejected.

Table 4.3: Breusch-Pagan Godfrey Heteroscedasticity Test
Heteroscedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoscedasticity			
F-statistic	0.185852	Prob. F (6,30)	0.9785
Obs*R-squared	1.326018	Prob. Chi-Square (6)	0.9702
Scaled explained SS	1.436527	Prob. Chi-Square (6)	0.9636

Source: (Author, 2025)

4.5 Correlational Analysis

Pairwise correlation analysis was adopted in measuring the linear relationship (Franzese & Iuliano, 2018) as displayed in Table 4.4. The values in the parenthesis indicate the t-statistic while those in brackets indicate the p-value. Bond market volatility (LNBMV) had weak positive insignificant correlation with investor

confidence with a coefficient of 0.129378 and p-value of $0.4388 > 0.05$; bond characteristic (LNBC) had strong positive correlation with a coefficient of 0.747962 and a p-value of $0.0000 < 0.05$; bond default risk (BDR) had moderate negative significant correlation, having a coefficient of -0.681135 and a p-value of $0.0000 < 0.05$; economic growth (LNEGR) had a weak negative insignificant correlation with coefficient of -0.080835 and a p-value of $0.6295 > 0.05$.

Table 4.4: Pairwise Correlation Results

Variables	Investor confidence	Bond market volatility	Bond characteristics	Bond default risk
Investor confidence	1			
Bond market volatility	0.129378	1		
Bond characteristic	0.747962	0.356518	1	
Bond default risk	-0.681135	-0.335508	-0.736055	1
Economic growth	-0.080835	0.173114	0.044318	-0.039535
	0.000	0.000	0.000	0.000

Source: (Author, 2025)

4.6 Stationarity Test

Stationarity implies that a time series dataset has a constant mean and variance. Most of econometric models assume stationarity of data, however that is not always the case since most time series data exhibit non-stationarity which leads to spurious results; thus, it is vital check for stationarity. The Augmented Dickey Fuller test was used to check for stationarity. Under the null hypothesis of no stationarity, the ADF T-statistic should exceed the critical value at 5% irrespective of the sign and the p-value should be below 0.05 to indicate stationarity (Guo, 2023). Table 4.5 shows ADF results at level.

Table 4.5: ADF Results at Level

Variable	ADF statistic	T-Probability	5% Critical Value	Conclusion
Investor confidence	-5.913156	0.0001	-3.529758	Stationary
Bond market volatility	-0.531130	0.9776	-3.529758	Non-stationary
Bond characteristics	-6.525438	0.0000	-3.529758	Stationary
Economic growth	-5.960755	0.0001	-3.557759	Stationary
Equity risk premium	-4.466118	0.0052	-3.529758	Stationary

Source: (Author, 2025)

Table 4.6 indicates that investor confidence (LNIC) was stationary at level, with a p-value of $0.0001 < 0.05$ and an ADF T-statistic of -5.913156 greater than 5 per cent critical value of -3.529758 . Bond market volatility (LNBMV) was non-stationary at level, with a p-value of $0.9776 > 0.05$ and an ADF T-statistic of -0.531130 less than 5 per cent critical value of -3.529758 . Bond characteristics (LNBC) was stationary at level, with a p-value of $0.0000 < 0.05$ and an ADF T-statistic of -6.525438 greater than 5 per cent critical value of -3.529758 . Economic growth (LNEGR) was stationary at level, with a p-value of $0.0001 < 0.05$ and an ADF T-statistic of -5.960755 greater than 5 per cent critical value of -3.557759 . Finally, equity risk premium (LNERP) was stationary at level, with a p-value of $0.0052 < 0.05$ and an ADF T-statistic of -4.466118 greater than 5 per cent critical value of -3.529758 . Since Bond market volatility (LNBMV) was not stationary at level, it was difference once and was found to be stationary, with a p-value of $0.0038 < 0.05$ and an ADF T-statistic of -4.596594 greater than 5 per cent critical value of -3.533084 .

Table 4.6: ADF Results at 1st Difference

Variable	ADF T-statistic	Probability	5% Critical Value	Conclusion
Bond market volatility	-4.596594	0.0038	-3.533084	Stationary

Source: (Author, 2025)

4.7 Cointegration Test

Cointegration is the presence long term relationships (cointegration equations) among variables. Thus, cointegration tests examine the presence or absence of long-term relationships between series. The study employed the Johansen cointegration test under the null hypothesis of existence of cointegration, which builds on Engle-Granger test to handle multivariate time series variables (Johansen, 1988). The decision criteria for test are based on trace test and maximum eigenvalue test, where their respective values are compared to critical value of each test.

If both the trace statistics and maximum eigenvalue statistic are greater than critical value at 0.05, the null hypothesis is rejected indicating cointegration and vice versa. Cointegration test guides the choice of the model to be used. In the presence of cointegration Vector Error Correction model (VECM) or Autoregressive Distributed Lag model (ARDL) are used to capture both the short-term and long-term

relationships in the model; while in the absence of cointegration, regression analysis or Vector Autoregressive model (VAR) are used. Table 4.7 and 4.8 indicate the trace and maximum eigenvalues that confirm no cointegration in the time series variables, thus the study resorted to regression to examine the short-term relationship among the variables.

Table 4.7: Trace Test Results

Hypothesized		Trace	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.397563	57.19370	47.85613	0.0052
At most 1	0.284019	27.80091	29.79707	0.0835
At most 2	0.100244	8.423038	15.49471	0.4213
At most 3	0.038820	2.296432	3.841465	0.1297

Source: (Author, 2025)

Table 4.8 indicates that there is no cointegration as the asterisk not any rank, thus there is a short-term relationship among the variables. This was also confirmed in Table 4.7.

Table 4.8: Maximum Eigenvalue Test Results

Hypothesized		Max-Eigen	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.397563	29.39279	27.58434	0.0290
At most 1	0.284019	19.37787	21.13162	0.0864
At most 2	0.100244	6.126606	14.26460	0.5970
At most 3	0.038820	2.296432	3.841465	0.1297

Source: (Author, 2025)

4.8 Optimal Number of Lags

Table 4.9 indicates that the optimal lag for the model was one, as all the criteria had an asterisk on lag one

Table 4.9: Optimal Lag length

VAR Lag Order Selection Criteria						
Endogenous variables: LNIC DLNBMV BDR LNBC LNEGR						
Exogenous variables: C						
Sample: 2014Q1 2023Q4						
Included observations: 33						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-88.55955	NA	0.000200	5.670276	5.897019	5.746568
1	-5.156551	136.4776*	5.91e-06*	2.130700*	3.491161*	2.588454*
2	18.90515	32.08227	7.00e-06	2.187567	4.681746	3.026782

* Indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

4.9 Granger Causality

Table 4.10 shows the results of the pairwise granger causality tests to determine if one-time series can be used to determine another but the complete information can be found in Appendix 1.

Table 4.10: Pairwise Granger Causality Tests

Independent Variables	Bond			
	Bond market volatility	Characteristic	Bond Default Risk	Economic Growth
Bond market volatility	0.53339	2.51919	0.05484	4.12088
Bond characteristic	1.18557	0.29571	3.16655	0.80152
Bond default risk	0.40794	1.68118	0.74263	0.74116
Economic growth	0.62510	3.48839	0.94880	0.31720

Table 4.10 indicated there was a unidirectional causality from bond market characteristics (DLNBMV) to investor confidence (LNIC) with a p-value of $0.0013 < 0.05$, implying that bond market characteristics past values significantly predicted the future values of investor confidence, while investor confidence did not granger cause bond market characteristics with a p-value of $0.5931 > 0.05$. Bond characteristic (LNBC) had a bidirectional causality with investor confidence with p-values of $0.0251 < 0.05$ and $0.0260 < 0.05$, implying that the two variables influenced each other. Bond default risk had a unidirectional causality with investor confidence with a p-value of $0.0035 < 0.05$ implying that its past values significantly predicted

investor confidence, while investor confidence did not granger cause bond default risk with a p-value of $0.3608 > 0.05$. finally, economic growth and investor confidence did not granger cause each other with p-values of $0.2984 > 0.05$ and $0.9651 > 0.05$.

When equity risk premium was used as a moderate; bond market characteristics (DLNBMVM) did not granger cause investor confidence (LNIC), and vice versa with p-values of $0.1657 > 0.05$ and $0.5917 > 0.05$ respectively, implying that equity risk premium did not moderate the effect of bond market characteristics on investor confidence. Furthermore, interacted bond characteristics (LNBCM) did not granger cause investor confidence (LNIC), and vice versa with p-values of $0.4344 > 0.05$ and $0.0668 > 0.05$ respectively, implying that equity risk premium did not moderate the effect of bond characteristics on investor confidence. Additionally, interacted bond default risk (BDRM) did not granger cause investor confidence (LNIC), while investor confidence did granger cause the moderated bond default risk vice versa with p-values of $0.4774 > 0.05$ and $0.0021 < 0.05$ respectively, implying that equity risk premium did not moderate the effect of bond default risk on investor confidence. Finally, interacted economic growth (LNEGRM) did not granger cause investor confidence (LNIC), and vice versa with p-values of $0.9728 > 0.05$ and $0.1561 > 0.05$ respectively, implying that equity risk premium did not moderate the effect of economic growth on investor confidence. For the control variables, only COVID 19 did granger cause investor confidence, implying that it had substantial effect on investor confidence.

4.10 Multiple Regression Analysis Results

The regression analysis results indicated that the Least square regression model was fit and statistically significant at 5% level of significance according to Table 4.11. The P-value for the F-statistics results was $0.000001 < 0.05$ and the measures of goodness of fit for the independent variables (Bond market volatility, bond characteristics, bond default risk, economic growth) considered in the analysis was $R^2 = 0.708658$ which indicated that the value in the regressor predicted 70.87% of the variance in the dependent variable (investor confidence in Kenyans corporate bond market). This indicated that other independent variables which were not incorporated in the analysis accounted for 29.13% variance in investor confidence in Kenyans corporate bond market. The COVID-19 pandemic and general elections were incorporated also incorporated in the model.

Table 4.11: Model Summary

Metric	Value
R-squared	0.708658
Adjusted R-squared	0.650390
S.E. of regression	1.085353
Sum squared residuals	35.33970
Log likelihood	-51.65138
F-statistic	12.16198
Prob (F-statistic)	0.000001
Durbin-Watson	1.755912

Source: (Author, 2025)

Table 4.12 indicated that bond characteristics had a positive and significant effect on Investor confidence in Kenyans corporate bond market. On the other hand, bond market volatility, bond default risk had a significant but negative influence on Investor confidence in Kenyans corporate bond market.

Table 4.12: Regression Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Bond market volatility	-6.088618	2.805163	-2.170504	0.0380
Bond characteristics	2.176633	0.751618	2.895932	0.0070
Bond default risk	-0.697245	0.324366	-2.149561	0.0398
Economic growth	-1.015427	0.643419	-1.578172	0.1250
COVID_19	-0.986227	0.475438	-2.074352	0.0467
General elections	0.623992	0.516337	1.208497	0.2363
Constant	-13.26536	2.833585	-4.681476	0.0001

Source: (Author, 2025)

The fitted regression model is fitted in the following equation:

$$LNIC_t = -13.26536 - 6.088618DLNBMV_t + 2.176633LNBC_t - 0.697245BDR_t - 1.015427LNEGR_t - 0.986227COVID_{19}_t + 0.623992GE_t$$

Where; $LNIC_t$ is the natural logarithm of investor confidence in Kenyans corporate bond market, $DLNBMV_t$ is the natural logarithm of bond market volatility, $LNBC_t$ represents the natural logarithm of the bond characteristics, BDR_t shows the bond default risk, $LNEGR_t$ represents the natural logarithm of the economic growth rate, $COVID_{19}$ presents the Corona Virus Pandemic (dummy variable) and GE represents the general election dummy variable, and t is the quarterly time series data.

The p-value for the bond market volatility (DLNBMV) was recorded as 0.0380, thus less than 0.05. This indicated a significant effect of bond market volatility on investor confidence in Kenyans corporate bond market. In addition, the coefficient (β_1) associated with this variable was determined to be -6.088618. This coefficient implies that, in the short term, a 1% increase in bond market volatility decreases investor confidence in Kenya's corporate bond market by 6.1%, holding all other factors constant.

The bond characteristics (LNBC) variable in table 4.11 indicated a p-value of 0.0070 which is less than 0.05. This indicates that bond characteristics had a significant influence on investor confidence in Kenyans corporate bond market. The positive coefficient showed a positive relationship between bond characteristics and investor confidence in Kenyans corporate bond market. The coefficient of bond characteristics (β_2) was 2.176633 implying that bond characteristics increased the investors' confidence in corporate bond market by 2.2% holding all other factors constant.

The findings indicated a significant effect of bond default risk (BDR), on the investor confidence in Kenyans corporate bond market, with a p-value of 0.0398, which was identified to be less than the significance level of 0.05. Furthermore, the coefficient associated with bond default risk had a negative sign indicating that it decreases the investors' confidence in corporate bond market. Furthermore, the coefficient (β_2) value was calculated as -0.697245. This indicated that, in short term, bond default risk reduced the investor confidence in Kenyans corporate bond market by 69.72%, if all the factors remain constant.

Economic growth had a p-value of 0.1250 indicating that it was statistically insignificant. The coefficient (β_2) value associated with economic growth was negative -1.015427 indicating that economic growth may not directly influence investors' confidence in Kenya's corporate bond market. While economic growth is generally seen as favorable to investment, its effects on investor confidence in the bond market may be indirect.

4.11 Moderating Effect of Equity Risk Premium

A moderating effect occurs when a third variable has an impact on the relationship between the regressors and the regress and. In this study, the equity risk premium was treated as the moderating variable. The analysis sought to examine their effect on the

relationship between regressors (bond market volatility, bond characteristics, bond default risk and economic growth) and the outcome variable (investors' confidence) in determining the moderating effect of equity risk premium, we observed if the equity risk premium affected the regression model by looking at the variation in R^2 between the regression model with no equity risk premium and the model run with the moderating variable. The moderating variable was included in the model using stepwise approach. Table 4.13 show an increase in $R^2 = 0.705352$ to the R^2 of 0.787199 when the moderating variable included in the regression indicating the fitness of the model. However, all the variables were noted to be insignificant, indicating that the equity risk premium was not the best moderating variable for the analysis. The Durbin Watson score is a value of 1.76 which falls between 1.5 and 2.5 thus indicating no autocorrelation.

Table 4.13: Model Summary

Metrics	Value
R-squared	0.787199
Adjusted R-squared	0.705352
S.E. of regression	0.996393
Sum squared resid	25.81276
Log likelihood	-45.83982
F-statistic	9.617972
Prob(F-statistic)	0.000002
Durbin-Watson stat	1.882795

Source: Author (2025)

Table 4.13 indicates the inclusion of the equity risk premium improved the model's explanatory power, as indicated by an increase in the R-squared value. However, the statistical insignificance of the variables in the moderated model suggests that the equity risk premium does not meaningfully influence the relationship between bond market factors and investor confidence, making it not be a suitable moderating variable in this context.

Table 4.14: Moderating effect of Equity Risk Premium coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Bond market volatility	12.02071	7.235042	1.661457	0.1086
Bond characteristics	3.314774	1.820903	1.820401	0.0802
Bond default risk	-0.525847	0.855991	-0.614313	0.5443
Economic growth	0.201466	0.919910	0.219006	0.8284
General Elections	0.734308	0.548859	1.337879	0.1925
COVID_19	-0.773106	0.463768	-1.667010	0.1075
Bond market volatility * M	53.12224	30.03295	1.768798	0.0887
Bond characteristic * M	9.543725	10.72547	0.889819	0.3817
Bond default risk * M	-0.332600	5.637594	-0.058997	0.9534
Economic growth * M	11.77092	10.37531	1.134513	0.2669
Constant	-14.44667	3.801413	-3.800343	0.0008

Source: (Author, 2025)

4.12 Chapter Summary

The results from pairwise correlation analysis revealed bond market volatility had weak positive insignificant correlation with investor confidence; bond characteristic had strong positive correlation with investor confidence; bond default risk had a moderate negative significant correlation with investor confidence; economic growth had a weak negative insignificant correlation with investor confidence. Bond characteristics had a positive and significant effect on Investor confidence in Kenyans corporate bond market. On the other hand, bond market volatility, bond default had a significant but negative influence on Investor confidence in Kenyans corporate bond market, while economic growth had a positive insignificant effect.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary and conclusion of key findings and draws the respective recommendations based on the study's specific objectives.

5.2 Summary of Key Findings

The study examined determinants of investor confidence of Kenya's Corporate bond market, while also considering the moderating role of equity risk premium. The research utilized a positivist research philosophy and a longitudinal design research design, incorporating quarterly data sourced from CBK, NSE and CMA for 2014 to 2023.

Investor confidence was the dependent variable that was measured proportion of total market trading volume, bond market volatility (BMV) was the first independent variable that was proxied by bond market capitalization, bond characteristics was the second independent variable that was measured by yields to maturity ratio, bond default risk was the third independent variable that was measured by bond credit rating, economic growth was measured by gross domestic product (GDP) growth rate.

Correlational analysis indicated that bond market volatility had weak positive insignificant correlation with investor confidence; bond characteristic had strong positive correlation; bond default risk had moderate negative significant correlation; economic growth had a weak negative insignificant correlation. Augmented Dickey-Fuller test for stationarity revealed all the variables exhibited stationarity at level except bond market volatility which was stationary at first difference.

Johansen cointegration indicated the absence of a long run relationship among the variables. Diagnostic tests validated the assumptions of ordinary least squares thus indicating the feasibility of the regression model for policy recommendations. Bond characteristics had a positive and significant effect on Investor confidence in Kenyan corporate bond market. On the other hand, bond market volatility, bond default had a significant but negative influence on Investor confidence in Kenyan corporate bond market, while economic growth had a positive insignificant effect.

5.3 Discussion

5.3.1 Effect of Bond Market Volatility on Investor Confidence

The findings implied that an increase in fluctuations in the bond market discourage investment majorly due to the perceived instability and risk. High market volatility most of the times triggers risk-averse behaviour among investors. Specifically, in Kenya political tensions caused by elections or even macroeconomic instability tend to develop bond market shifts, eroding investors trust.

This finding concurs with that of Ngaruiya et al. (2025) who discovered that market unpredictability such as shifting interest rates and uneven regulatory actions contributes to a decline in long-term investment. According to Otieno (2018), volatility also hinders price discovery and causes bond instrument mispricing, which erodes market sentiment even further.

Furthermore, World Bank report of 2022 noted that emerging markets are highly vulnerable to volatility due to less mature financial systems and weak investors protections. Paule-Vianez et al. (2022) revealed that fear positively impacted 10-year bond yields indicating that fear had a relationship with an increase in country risk perception. Similarly, Wanjau (2018) confirmed a positive relationship between volatility and investor sentiment.

The findings provide support the hypothesis of Akerlof (1970) information asymmetry theory as it found bond market volatility had a relationship with investor confidence. For example, investors with limited access to information may rely on noisy signals, leading to inefficient pricing and exaggerated volatility. The findings provide evidence of information asymmetry scenario as investors lack of adequate information on corporate bonds may result in distorted value information.

5.3.2 Effect of Bond Characteristics on Investor Confidence

The bond characteristics indicated that bond characteristics had a significant influence on investor confidence in Kenyans corporate bond market. The positive coefficient showed a positive relationship between bond characteristics and investor confidence in Kenyans corporate bond market. This implies that well-structured bonds characterised by attractive interest rates, short maturity periods and stronger issuer reputation contributes much to the investors trust. Investors value much clarity, predictability and reward in the bond instruments.

In line with this, Kariuki, (2024) claimed perceived clarity and simplicity in corporate bonds with distinct risk-reward profiles draw more involvement of the investors. In addition, oversubscription of bonds issued by highly rated corporations, like Safaricom, demonstrates how receptive investors are to quality characteristics of the bond (Wafula, 2021). Furthermore, Mutua and Kirui (2021) pointed out that inclusivity and innovation are constrained by the lack of diversity in Kenya's bond market, particularly the limited selection of green or Islamic bond choices. This supports the findings of this study and demonstrates that enhancing bond structures is crucial to regaining and enhancing investor confidence.

Information asymmetry was advanced by Akerlof (1970) and presents a scenario where one has more or better information than another. In this case, those issuing the bond have much more information than the investor and this presents the information asymmetry. The findings confirmed this hypothesis as it demonstrated that investors that have access to information on the bond characteristics would have an influence on investor confidence as they are better informed on their investment decisions.

5.3.3 Effect of Bond Default Risk on Investor Confidence

There was a significant effect of bond default risk on investor confidence in Kenya's corporate bond market. Furthermore, the coefficient associated with bond default risk had a negative sign indicating that it decreases the investors' confidence in corporate bond market. The findings indicated that, in short term, bond default risk reduced the investor confidence in Kenyans corporate bond market if all the factors remain constant. This indicates that investors are less inclined to purchase corporate bonds when they perceive there is a likelihood of default.

In Kenya there has been cases of default of the corporate bond which have caused long-term damage to investor trust. For instance, the default by Imperial Bank and Chase Bank led to substantial investor losses and regulatory backlash. A report by Capital Market Authority (CMA) of 2020 reported that there was a sharp drop in corporate bond issuance after these defaults due to diminished investor desire and perceived regulatory gaps.

The retail investors were more affected leading to a long-standing withdrawal from the bond market (Amenya, 2023). The lack of secondary market activity and compensation mechanisms further discouraged reinvestment. Therefore, the

significant negative coefficient supports existing findings that reducing credit risk through better governance, credit rating agencies, and investor capacity building is crucial.

This finding provides support for the information asymmetry (Akerlof, 1970) of adverse selection hypothesis. The adverse selection occurs when a party takes advantage of their superior knowledge (asymmetric information) to enter into a contract or transaction that favors them more than another party. This means that high-risk firms are more likely to issue debt when they know investors can't distinguish between high and low risk. This leads to adverse selection, where good borrowers exit the market, leaving only risky ones.

5.3.4 Effect of Economic Growth on Investor Confidence

The results indicated a positive but insignificant effect on investor confidence on the corporate bond market implying economic growth may not directly influence investors' confidence. While economic growth is generally seen as favorable to investment, its effects on investor confidence in the bond market may be indirect. This finding supports those of Rahimian et al. (2022) in Iran that found no relationship between investor confidence in financial markets and money growth uncertainty.

Chege (2021) observed that economic growth in Kenya tends to be unevenly distributed, with much of the expansion occurring in sectors like agriculture and the informal economy, which typically do not participate in bond issuance, thereby limiting the growth of the corporate bond market.

Furthermore, Wanjala and Kiprop (2020) suggested that investors are more influenced by the specific features of bonds and the performance of issuing firms rather than broad economic indicators. They further noted that even during periods of economic growth, factors such as inflation and increasing interest rates can discourage investment in fixed-income securities.

The findings go against other research that report positive effects of economic growth on investor confidence in corporate bond market. For instance, Guo and Shan (2020) found that economic activities had a positive effect on investor confidence. In addition, findings did not support the business cycle theory. The business cycle theory was advanced by Keynes (1936) is a fundamental concept in economics. It describes the recurrent, alternating phases of expansion and contraction in an economy's

economic activity. These cycles are not regular in terms of duration, amplitude, or the specific events that trigger them, but they tend to follow a general pattern. These events then have an effect on financial activities. However, the findings did not support the business cycle theory as GDP had no effect on corporate bond investor confidence.

5.3.5 Moderating Effect of Equity Risk Premium

A moderating effect occurs when a third variable has an impact on the relationship between the independent and dependent variables. In this study, the equity risk premium was treated as the moderating variable. The analysis sought to examine their effect on the relationship between independent variables (bond market volatility, bond characteristics, bond default risk and economic growth) and the regress and (investors' confidence in Kenyans corporate bond market). In determining the moderating effect of equity risk premium, we observed if the equity risk premium affected the regression model by looking at the variation in R^2 between the regression model with no equity risk premium and the model run with the moderating variable. The moderating variable was included in the model using stepwise approach. The results in table 4.8 show an increase in $R^2 = 0.705352$ to the R^2 of 0.787199 when the moderating variable is included in the regression indicating the fitness of the model. However, all the variables were noted to be insignificant, indicating that the equity risk premium was not the best moderating variable for the analysis.

5.4 Conclusion

5.4.1 Effect of Bond Market Volatility on Investor Confidence in Corporate Bond

Based on the findings of the first objective which focused on assessing the effect of bond market volatility on investor confidence in Kenya's corporate bond market, it was concluded that bond market volatility has a statistically significant and negative effect on investor confidence. Specifically, an increase in market volatility decreased the investor confidence. Based on this, this study indicates that heightened uncertainty and fluctuations in bond prices discourage investor participation. In addition, volatility increases perceived risk, which in turn leads to reduced investment activity, particularly among risk-averse investors.

5.4.2 Effect of Bond Characteristics on Investor Confidence in Corporate Bond

The bond characteristics had positive and significant influence on investor confidence in corporate bond market in Kenya. This implied that improvement in bond characteristics increased investor confidence. The desirable bond characteristics which enhance investor confidence to invest include attractive interest rates, shorter maturity durations and stronger issuer reputation. Therefore, the findings of this objective indicate clearly that investors are drawn to financial instruments that offer clear returns, low risk, and strong backing, reinforcing the importance of structured and transparent bond offerings.

5.4.3 Effect of Bond Default Risk on Investor Confidence in Corporate Bond

The study findings established that bond default risk has a significant negative impact on investor confidence. The results indicated an increase in the perceived risk of default could reduce investor confidence. This substantial decline reflects the sensitivity of investors to the risk of financial losses due to issuer defaults. Therefore, this study further concludes that lack of adequate investor protection mechanisms and compensation for losses affects their confidence to invest in corporate bonds markets in Kenya.

5.4.4 Effect of Economic Growth on Investor Confidence in Corporate Bond

Economic growth had a negative coefficient in the regression model, though it was insignificant, suggesting that economic expansion alone does not directly influence investor confidence in the corporate bond market. This could be attributed to the fact that much of Kenya's economic growth is concentrated in sectors that are less engaged in bond issuance. Therefore, we conclude that broader economic growth may not necessarily translate into increased confidence or activity in the corporate bond segment among investors in Kenya.

5.4.5 Moderating Effect of Equity Premium Risk

The analysis sought to determine whether the equity risk premium moderates the relationship between the selected determinants and investor confidence. The inclusion of the equity risk premium improved the model's explanatory power. However, the statistical insignificance of the variables in the moderated model suggests that the equity risk premium does not meaningfully influence the relationship between bond market factors and investor confidence.

5.5 Recommendations

This study's empirical findings are used to infer the following policy suggestions.

The research results revealed that bond market volatility has a negative effect on the investor confidence in corporate bond market in Kenya. The study recommends to the government to work and ensure continuity and consistency in fiscal and monetary policies, especially during politically sensitive periods such as general elections. In addition, enhancing regulatory transparency and providing timely market information can help reduce uncertainty and promote more informed investment decisions.

The results further indicate that bond characteristics have a positive and significant influence on the investor confidence in corporate bond market in Kenya. Therefore, this study recommends to the National treasury and to the other organizational bodies which issue bonds and regulate the market for bonds to improve the structural quality of bonds to attract investors. This includes offering bonds with competitive yields, manageable maturity periods, and strong backing from reputable institutions.

The study findings indicated that bond default risk has a negative but significant effect on the investor confidence in corporate bond market. Therefore, this study recommends to the government and other relevant institutions address concerns over bond default. In addition, regulatory bodies like the CMA should enhance monitoring mechanisms to detect early signs of financial distress. Introducing or strengthening credit rating agencies can help provide independent assessments of bond issuers, enabling investors to make informed decisions. Moreover, establishing a compensation or insurance scheme for retail investors who suffer losses due to defaults could help restore and sustain market trust.

Despite that, economic growth did not influence investor confidence in the analysis of this study, the government of Kenya should make efforts to align growth initiatives with capital market development. Promoting formalization and financial inclusion in high-growth sectors can create a larger base of firms eligible to issue corporate bonds. In addition, policies that encourage private sector participation in capital market which include but not limited to tax incentives and capacity-building program can indirectly enhance investor confidence by demonstrating broad-based and sustainable economic progress.

In the findings of the regression model the equity risk premium did not significantly moderate the relationships between the confidence and the determinants of investor confidence in corporate bond market. Therefore, this study recommends to the researchers and policy analyst to carry out future studies and policy interventions which focuses on alternative moderating factors such as inflation expectations, interest rate spreads, or market liquidity to better understanding on confidence dynamics in Kenya's bond market.

5.6 Limitations of the Study

The study was limited to secondary data implying that the analysis was based on data already published and there were no first-hand accounts from respondents on their investor confidence in corporate bond market. Second, the study was limited to corporate bonds. Secondly, the study was limited to the fact that corporate bond market activity is small with few active issuers and limited diversity across sectors therefore limiting implications of the findings. Third, the corporate bonds issued are limited to specific sectors including finance and therefore do not include other sectors of the economy thereby providing limited generalization or knowledge to other sectors.

5.7 Area for Further Study

The study was limited to secondary data on corporate bond market between 2014 and 2024. This means the data used objective or absolute methods of measuring the relationship between determinants of corporate bond market investor confidence. Therefore, the research recommends for future researchers to examine this relationship using primary data from respondents in the NSE intermediaries. Such a study will be dependent on subjective measures of investor confidence and its determinants in Kenya's corporate bond market.

5.8 Chapter Summary

This chapter presented the discussion of findings with the reviewed literature and its theoretical framework. This discussion was presented based on the study's objectives and the same was done for its conclusions. The recommendations are made for policy, practice, and theory. The limitations of the study were outlined and the areas of further research were also presented.

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APPENDICES

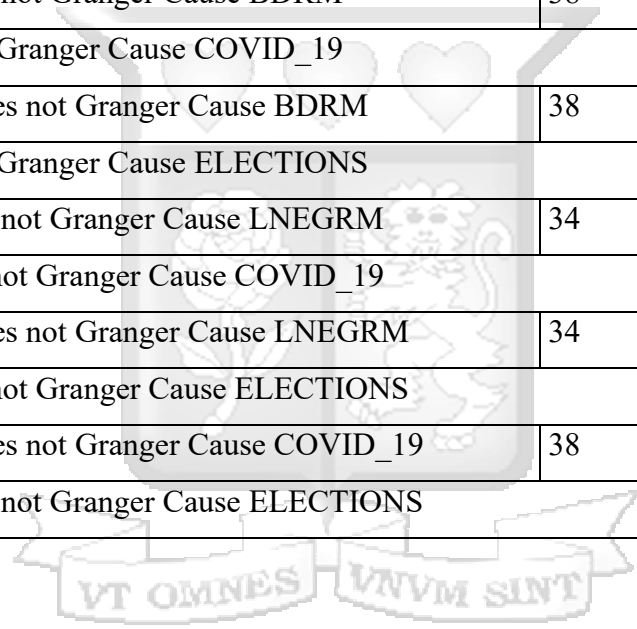
APPENDIX 1: GRANGER CAUSALITY RESULTS

Pairwise Granger Causality Tests			
Sample: 2014Q1 2023Q4			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
DLNBMV does not Granger Cause LNIC	37	2.09369	0.0013
LNIC does not Granger Cause DLNBMV		0.53099	0.5931
LNBC does not Granger Cause LNIC	38	3.43766	0.0251
LNIC does not Granger Cause LNBC		4.08715	0.0260
BDR does not Granger Cause LNIC	38	2.07537	0.0035
LNIC does not Granger Cause BDR		1.05151	0.3608
LNEGR does not Granger Cause LNIC	34	1.26134	0.2984
LNIC does not Granger Cause LNEGR		0.03558	0.9651
DLNBVMM does not Granger Cause LNIC	37	1.90218	0.1657
LNIC does not Granger Cause DLNBVMM		0.53339	0.5917
LNBCM does not Granger Cause LNIC	38	0.85518	0.4344
LNIC does not Granger Cause LNBCM		2.92254	0.0678
BDRM does not Granger Cause LNIC	38	0.75611	0.4774
LNIC does not Granger Cause BDRM		7.46589	0.0021
LNEGRM does not Granger Cause LNIC	34	0.02757	0.9728
LNIC does not Granger Cause LNEGRM		1.98169	0.1561
COVID_19 does not Granger Cause LNIC	38	7.45476	0.0021
LNIC does not Granger Cause COVID_19		0.65690	0.5251
ELECTIONS does not Granger Cause LNIC	38	1.11809	0.3390
LNIC does not Granger Cause ELECTIONS		0.12163	0.8859
LNBC does not Granger Cause DLNBMV	37	2.51919	0.0964
DLNBMV does not Granger Cause LNBC		1.18557	0.3186
BDR does not Granger Cause DLNBMV	37	0.05484	0.9467
DLNBMV does not Granger Cause BDR		0.23831	0.7893
LNEGR does not Granger Cause DLNBMV	33	4.12088	0.0270
DLNBMV does not Granger Cause LNEGR		0.61995	0.5452

DLNBVMM does not Granger Cause DLNBMV	37	0.81279	0.4526
DLNBMV does not Granger Cause DLNBVMM		6.49607	0.0043
LNBCM does not Granger Cause DLNBMV	37	2.53654	0.0949
DLNBMV does not Granger Cause LNBCM		0.61659	0.5461
BDRM does not Granger Cause DLNBMV	37	1.29320	0.2883
DLNBMV does not Granger Cause BDRM		2.64388	0.0866
LNEGRM does not Granger Cause DLNBMV	33	0.77048	0.4724
DLNBMV does not Granger Cause LNEGRM		0.35839	0.7020
COVID_19 does not Granger Cause DLNBMV	37	2.13565	0.1347
DLNBMV does not Granger Cause COVID_19		0.24381	0.7851
ELECTIONS does not Granger Cause DLNBMV	37	0.51577	0.6019
DLNBMV does not Granger Cause ELECTIONS		0.30811	0.7370
BDR does not Granger Cause LNBC	38	3.16655	0.0552
LNBC does not Granger Cause BDR		1.68118	0.2017
LNEGR does not Granger Cause LNBC	34	0.80152	0.4583
LNBC does not Granger Cause LNEGR		3.48839	0.0439
DLNBVMM does not Granger Cause LNBC	37	0.78107	0.4664
LNBC does not Granger Cause DLNBVMM		0.28480	0.7541
LNBCM does not Granger Cause LNBC	38	0.29571	0.7460
LNBC does not Granger Cause LNBCM		0.50550	0.6078
BDRM does not Granger Cause LNBC	38	2.50247	0.0973
LNBC does not Granger Cause BDRM		2.06343	0.1431
LNEGRM does not Granger Cause LNBC	34	0.61000	0.5502
LNBC does not Granger Cause LNEGRM		0.35446	0.7046
COVID_19 does not Granger Cause LNBC	38	0.39504	0.6768
LNBC does not Granger Cause COVID_19		0.78389	0.4649
ELECTIONS does not Granger Cause LNBC	38	1.18980	0.3170
LNBC does not Granger Cause ELECTIONS		0.01537	0.9848
LNEGR does not Granger Cause BDR	34	1.64234	0.2110
BDR does not Granger Cause LNEGR		0.94880	0.3989
DLNBVMM does not Granger Cause BDR	37	0.40794	0.6684
BDR does not Granger Cause DLNBVMM		3.02003	0.0629

LNBCM does not Granger Cause BDR	38	2.02804	0.1477
BDR does not Granger Cause LNBCM		0.36570	0.6965
BDRM does not Granger Cause BDR	38	0.74263	0.4836
BDR does not Granger Cause BDRM		8.53647	0.0010
LNEGRM does not Granger Cause BDR	34	1.84948	0.1754
BDR does not Granger Cause LNEGRM		0.49311	0.6158
COVID_19 does not Granger Cause BDR	38	1.74584	0.1902
BDR does not Granger Cause COVID_19		0.02037	0.9798
ELECTIONS do not Granger Cause BDR	38	0.14510	0.8655
BDR does not Granger Cause ELECTIONS		0.13082	0.8778
DLNBVMM does not Granger Cause LNEGR	33	0.62510	0.5425
LNEGR does not Granger Cause DLNBVMM		0.80403	0.4576
LNBCM does not Granger Cause LNEGR	34	1.36118	0.2723
LNEGR does not Granger Cause LNBCM		0.27737	0.7598
BDRM does not Granger Cause LNEGR	34	2.39175	0.1093
LNEGR does not Granger Cause BDRM		0.74116	0.4854
LNEGRM does not Granger Cause LNEGR	34	1.43082	0.2555
LNEGR does not Granger Cause LNEGRM		0.31720	0.7307
COVID_19 does not Granger Cause LNEGR	34	NA	NA
LNEGR does not Granger Cause COVID_19		NA	NA
ELECTIONS does not Granger Cause LNEGR	34	1.60732	0.2178
LNEGR does not Granger Cause ELECTIONS		1.37165	0.2697
LNBCM does not Granger Cause DLNBVMM	37	1.30747	0.2846
DLNBVMM does not Granger Cause LNBCM		0.25934	0.7732
BDRM does not Granger Cause DLNBVMM	37	0.25745	0.7746
DLNBVMM does not Granger Cause BDRM		1.89765	0.1664
LNEGRM does not Granger Cause DLNBVMM	33	0.02163	0.9786
DLNBVMM does not Granger Cause LNEGRM		0.13834	0.8714
COVID_19 does not Granger Cause DLNBVMM	37	5.07995	0.0121
DLNBVMM does not Granger Cause COVID_19		0.11597	0.8909
ELECTIONS does not Granger Cause DLNBVMM	37	4.08297	0.0263
DLNBVMM does not Granger Cause ELECTIONS		0.05743	0.9443

BDRM does not Granger Cause LNBCM	38	0.17855	0.8373
LNBCM does not Granger Cause BDRM		2.16256	0.1311
LNEGRM does not Granger Cause LNBCM	34	0.43245	0.6530
LNBCM does not Granger Cause LNEGRM		0.49008	0.6176
COVID_19 does not Granger Cause LNBCM	38	0.98855	0.3829
LNBCM does not Granger Cause COVID_19		1.14893	0.3293
ELECTIONS does not Granger Cause LNBCM	38	2.10444	0.1380
LNBCM does not Granger Cause ELECTIONS		0.98374	0.3846
LNEGRM does not Granger Cause BDRM	34	1.90428	0.1671
BDRM does not Granger Cause LNEGRM		0.24019	0.7880
COVID_19 does not Granger Cause BDRM	38	1.00351	0.3775
BDRM does not Granger Cause COVID_19		0.41225	0.6655
ELECTIONS does not Granger Cause BDRM	38	0.18367	0.8331
BDRM does not Granger Cause ELECTIONS		0.88496	0.4223
COVID_19 does not Granger Cause LNEGRM	34	NA	NA
LNEGRM does not Granger Cause COVID_19		NA	NA
ELECTIONS does not Granger Cause LNEGRM	34	1.65846	0.2080
LNEGRM does not Granger Cause ELECTIONS		1.37797	0.2681
ELECTIONS does not Granger Cause COVID_19	38	0.10171	0.9036
COVID_19 does not Granger Cause ELECTIONS		0.11509	0.8916



APPENDIX 2: ETHICAL APPROVAL



25th February 2025

Mr Mue Mathew,
mathew.mue@strathmore.edu

Dear Mr Mue,

**RE: Determinants of Investor Confidence in Kenya's Corporate Bond Market:
Moderated by Equity Risk Premium**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2548/24**. The approval period is from **25th February 2025 to 24th February 2026**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

**Mr Ambrose Rachier,
Chairperson; SU-ISERC**

APPENDIX 3: RESEARCH PERMIT

REPUBLIC OF KENYA
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: **211300** Date of Issue: **13/May/2025**

RESEARCH LICENSE



This is to Certify that **Mr. Mathew Mue** of **Strathmore University**, has been licensed to conduct research as per the provision of the **Science, Technology and Innovation Act, 2013 (Rev.2014)** in **Nairobi** on the topic: **DETERMINANTS OF INVESTOR CONFIDENCE IN KENYA'S CORPORATE BOND MARKET: MODERATED BY EQUITY RISK PREMIUM** for the period ending : **13/May/2026**.

License No: **NACOSTI/P/25/4173628**

211300
Applicant Identification Number

[Signature]
Deputy Director
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

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See overleaf for conditions