

FACTORS INFLUENCING STOCK MARKET PRICES: A COMPREHENSIVE ANALYSIS

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ABSTRACT

The stock market is a complex system influenced by various factors that can cause significant fluctuations in stock prices. This article provides a comprehensive analysis of the primary factors affecting stock market prices, including economic indicators, corporate performance, market sentiment, geopolitical events, and external shocks. Understanding these factors is crucial for investors, policymakers, and financial analysts to make informed decisions and predict market trends.

Keywords: Stock Market, Stock Prices, Economic Indicators, Corporate Performance, Market Sentiment, Geopolitical Events.

INTRODUCTION

The stock market is a dynamic and intricate environment where prices of stocks can change rapidly based on a myriad of influences. Understanding these factors is essential for investors, financial analysts, and policymakers who aim to navigate the complexities of the market and make informed decisions. This article delves into the various elements that impact stock market prices, providing a detailed analysis of each (Allahawiah & Al Amro, 2012).

Economic Indicators

A growing GDP typically signals a healthy economy, leading to higher stock prices as corporate profits are expected to increase. Moderate inflation is generally positive for stocks, but high inflation can erode purchasing power and corporate profits, leading to lower stock prices (Baker, 2024).

Lower interest rates reduce borrowing costs for companies, boosting investment and stock prices. Conversely, higher rates can dampen economic activity and reduce stock valuations (Botsvadze, 2012).

High employment levels indicate economic strength and consumer spending power, positively affecting stock prices. The performance and financial health of individual companies directly impact their stock prices (Dhingra et al., 2024).

Positive earnings reports often lead to higher stock prices, while negative earnings can cause a decline. Consistent revenue growth indicates a company's robust market position and potential for future profits (Hui, 2019).

Higher profit margins suggest efficient management and operational success, leading to positive stock performance. Companies that pay regular dividends may attract investors seeking steady income, thereby supporting stock prices (Nana, 2020).

Market Sentiment

Positive news about a company or the economy can boost investor confidence and drive stock prices up, while negative news can have the opposite effect. Bullish markets often lead to increased buying activity, driving prices higher, whereas bearish markets can trigger

selling and lower prices. Herd behaviour, where investors follow the actions of others, can lead to significant price movements and market volatility (Ozlen, 2015).

Geopolitical Events

Elections and changes in government policies can affect market confidence and investor sentiment. Tariffs, trade agreements, and international trade disputes can influence corporate profits and stock prices. Geopolitical conflicts and acts of terrorism can create uncertainty and risk, leading to market volatility (Parvin & Panakaje, 2022).

External Shocks

Earthquakes, hurricanes, and other natural disasters can disrupt economic activity and affect stock markets (Sun & Hong, 2021). Health crises, such as the COVID-19 pandemic, can cause widespread economic disruption and significant stock market fluctuations. Innovations and technological breakthroughs can create new market opportunities and disrupt existing industries, impacting stock prices (Zhao et al., 2023).

CONCLUSION

Stock market prices are influenced by a complex interplay of economic indicators, corporate performance, market sentiment, geopolitical events, and external shocks. Understanding these factors is essential for investors and financial professionals to navigate the market effectively. By staying informed and analysing these elements, stakeholders can better predict market trends, manage risks, and make strategic investment decisions. In a constantly evolving global economy, continuous monitoring and analysis of these factors are crucial for maintaining a robust investment strategy and achieving long-term financial success.

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