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Global Macroeconomic Forces and Stock Market Performance: Evidence from a Developing Economy

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Abstract

This study investigates the impact of global macroeconomic indicators, namely gold prices and the USD exchange rate, on the performance of the Nepal Stock Exchange (NEPSE) from 2015 to 2025 (August). Using monthly secondary data, the study applies correlation and multiple linear regression analyses through SPSS to examine their relationships. The findings reveal that gold prices have a significant positive influence on NEPSE, while the USD exchange rate shows an insignificant effect. This indicates that gold plays a more dominant role in shaping investor sentiment and market performance in Nepal. The study concludes that NEPSE is more responsive to global commodity trends, particularly gold, than to currency fluctuations. It recommends that policymakers and investors closely monitor global gold movements, promote financial awareness, and diversify investment strategies to strengthen market stability and long-term growth in Nepal's capital market.

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1. Introduction

The Nepal Stock Exchange (NEPSE) serves as a critical barometer of Nepal's economic health and investment climate. As a developing economy, Nepal is influenced not only by domestic factors but also by global economic trends. Among these global factors, the prices of gold, crude oil, and the value of the US dollar (USD) play significant roles in shaping market dynamics. Understanding the interplay between these variables and the NEPSE index can provide valuable insights for investors, policymakers, and economists (Nepal Stock Exchange, 2023).

The NEPSE index reflects the performance of Nepal's stock market, which is highly susceptible to global economic changes, particularly in commodities and currency markets. Gold, and the USD exchange rate are key determinants that affect both global and domestic economic activities. As Nepal relies heavily on imports, and gold, fluctuations in their prices can significantly influence the country's inflation, trade balance, and ultimately, the stock market (Sharma & Bhatta, 2013).

Investors often choose from a variety of asset classes, with stocks, commodities like crude oil and precious metals, and currencies being prominent options. Stocks are generally considered riskier due to their price volatility (Singh, 2014). The relationship between the stock market and gold is often inverse investors tend to shift towards gold during stock market declines and vice versa (Beckmann et al., 2015). Similarly, there is a positive correlation between crude oil and gold prices, as fluctuations in crude oil prices affect the cost of gold production. Rising crude oil prices can increase production costs, negatively impacting stock markets (Tursoy & Faisal, 2018). Additionally, exchange rate movements, especially the value of the USD, significantly impact global trade and commodity prices, as most international transactions are priced in USD (Mamcarz, 2018).

Gold has long been considered a safe-haven asset and a store of value, particularly during periods of economic uncertainty. Its price movements are often inversely correlated with stock market performance, though this relationship may vary across different economies (World Gold Council, 2023). Similarly, the USD, as the world's primary reserve currency, impacts trade, investment, and foreign reserves in countries like Nepal (World Bank, 2022). Crude oil prices also play a crucial role in influencing global economic activity, directly affecting energy-dependent economies like Nepal through changes in production costs, transportation, and inflation (Energy Information Administration, 2023). The NEPSE index is around 2,672 points. Recent political protests caused some market disturbance, but trading has resumed (Share Sansar, 2026). The mood is still cautious, and daily turnover is moderate. Investors are waiting for stability before making big moves. Gold remains expensive, trading close to its all-time highs. The rate for 11.6638 grams of pure gold is around NPR 194,900 to 195,000, while per gram pure gold is about NPR 24,946.43 (Arthakendra, 2026). Rising global demand for safe-haven assets and dollar fluctuations are the main reasons. According to Nepal Rastra Bank, today's official exchange rate is USD 1 = NPR 15146 (buy) / 152.06 (sell) (Nepal Rastra Bank, 2026). Commercial banks use these NRB reference rates with small variations. The Nepali rupee gained slightly compared to the previous week.

This study aims to analyze the impact of global macroeconomic indicators, specifically gold prices and the USD to Nepalese Rupee exchange rate on the Nepal Stock Exchange (NEPSE) from 2015 to 2025. By employing correlation analysis to determine the strength and direction of these relationships and utilizing multiple linear regression to quantify their effects, the research investigates the interconnections between these key external variables and domestic market performance. Ultimately, the study seeks to provide investors and policymakers with a clearer

understanding of how global economic fluctuations influence Nepal's financial landscape, offering valuable insights through rigorous statistical examination of trends and dependencies. The significance of this study lies in its contribution to understanding how global macroeconomic indicators, such as gold prices and the USD to Nepalese Rupee exchange rate, influence the Nepal Stock Exchange (NEPSE), offering critical insights for investors and policymakers in an import-reliant, developing economy. By addressing the current research gap regarding the combined effects of these external variables, the study facilitates better market forecasting and informed economic policy, though its scope is constrained by a reliance on monthly secondary data (2015–2025) that may miss short-term volatility. Furthermore, by focusing exclusively on two indicators and employing primarily linear statistical methods, the research may overlook complex nonlinear relationships, lagged effects of external shocks, or other influential macroeconomic factors, which limits the comprehensiveness and generalizability of the findings.

2. Literature Review

Recent studies have made it clear that global macroeconomic factors especially gold prices, oil prices, and exchange rate movements play an important role in shaping stock market performance, particularly in emerging economies. In the case of Nepal, research has consistently shown that gold is closely linked with stock market behavior. For example, Bhusal and Gautam (2022) found a strong positive relationship between gold prices and the Nepal Stock Exchange (NEPSE), suggesting that gold acts as a reliable investment option during uncertain times. Similarly, Risal (2020) also reported that changes in gold prices significantly affect NEPSE, as investors tend to shift between gold and stocks depending on market conditions.

At the global level, many studies support the idea that gold acts as a safe-haven asset, especially during economic crises. Researchers Arfaoui and Ben Rejeb (2022) showed that gold becomes more attractive during periods like the COVID-19 pandemic, particularly in developing economies. Likewise, Ming, Choi, and Zhang (2023) found that gold can act both as a hedge in normal times and as a safe haven during market stress across several emerging markets. Rahmadani (2025) further highlighted that gold prices tend to rise during periods of geopolitical uncertainty and market volatility.

However, not all studies fully agree. Some recent research suggests that gold's role as a safe haven is not always stable. For instance, findings from the University of Stirling (2025) show that gold can become volatile during extreme crises, reducing its protective role. Similarly, Ameur et al. (2024) argued that gold's effectiveness depends on the level of market stress. Even so, institutions like the World Gold Council (2023) and, Baronyan and Nae(2025) still consider gold an important long-term investment and diversification tool.

Apart from gold, oil prices are also found to influence stock markets, especially in emerging economies. Studies such as Tiwari et al. (2025) show that oil price shocks particularly supply and risk-related shocks can negatively affect stock markets. Other research, including Narayan and Narayan (2020) and Ahmed et al. (2023), explains that rising oil prices increase inflation and reduce stock market returns. This is especially relevant for countries like Nepal, which depend heavily on imported oil. In such cases, rising oil prices can increase costs, reduce investor confidence, and negatively impact the overall market.

Exchange rate movements are another important factor discussed in the literature. Many studies show that exchange rate volatility affects stock markets through trade, inflation, and capital flows. For example, Mamcarz (2018) found that a stronger U.S.

dollar can negatively affect stock markets in emerging economies. Similarly, Oyadeyi (2024) reported that currency fluctuations increase economic vulnerability in developing countries. Other studies also suggest that exchange rate movements can strengthen the impact of commodity price shocks on stock markets.

Despite this growing body of global research, there is still limited evidence focusing specifically on Nepal. Existing studies mainly examine gold or macroeconomic variables individually and often use basic statistical methods. They do not fully capture the combined effects of multiple global factors or use advanced analytical techniques. Moreover, earlier studies such as Shrestha and Subedi (2014) and Joshi (2009) highlight that Nepal's stock market behaves differently from more developed markets, mainly due to structural limitations and inefficiencies. Therefore, there is a clear research gap in understanding how global macroeconomic variables, particularly gold prices and exchange rates jointly influence the Nepalese stock market using more recent data and improved methods. This study attempts to fill that gap by providing a more comprehensive and updated analysis.

2.1 Research Gap

The research gap in this study lies in the limited empirical analysis focusing specifically on the combined effects of global macroeconomic indicators such as gold prices and USD exchange rates on the Nepal Stock Exchange (NEPSE). While previous literature has often examined these variables individually or emphasized larger, more integrated economies, there has been relatively little attention given to how these indicators collectively influence NEPSE, which is characterized by unique market dynamics and sensitivities as a developing economy. Moreover, qualitative factors like policy impacts and investor behavior have been underexplored in the existing literature, creating an opportunity for this study to provide a more comprehensive understanding of the financial market responses in Nepal to external economic shocks.

3. Methodology

3.1 Research Design

This study adopts a quantitative and causal research design to examine the influence of gold prices and the U.S. dollar exchange rate on the Nepal Stock Exchange (NEPSE). The analysis covers the period from 2015 to 2025 and relies entirely on secondary data collected from reliable sources such as the World Bank, IMF, Nepal Rastra Bank, and the Nepal Stock Exchange.

3.2 Sample and Data Collection

In this study, the NEPSE index is treated as the dependent variable, while gold prices and the USD exchange rate serve as the independent variables. Pearson's correlation coefficients were then calculated to assess the direction and strength of relationships between the variables.

3.3 Data Analysis

To measure the extent of influence, multiple linear regression analysis was employed. The model estimates the effect of changes in gold prices and the exchange rate on NEPSE, while diagnostic tests such as multicollinearity, heteroskedasticity, and normality checks were performed to confirm the reliability of the regression results. The combined use of descriptive statistics, correlation analysis, and regression models provides a comprehensive approach to understanding how external shocks in commodity and currency markets affect the behavior of Nepal's stock market.

Following the correlation analysis, multiple linear regression was employed to quantify the impact of gold prices and the USD exchange rate on NEPSE. The regression model used in this study is expressed as:

$$NEPSEt = \alpha + \beta_1 Gold_t + \beta_2 USD_t + \epsilon_t$$

Where, NEPSEt is the dependent variable, representing the NEPSE index at the end of each month. $Gold_t$ and USD_t are the independent variables, representing the

gold price and the USD exchange rate at the end of each month, respectively. β_1, β_2 the regression coefficients capturing the marginal effects of the independent variables on NEPSE and ε_t is the error term.

3. Finding

This section presents the results of the descriptive, correlation, and regression analyses conducted to examine the impact of gold prices and the USD exchange rate on the NEPSE Index from 2015 to 2025.

Table 1: Model Summary of Descriptive Statistics

	Range	Min.	Max.	Mean	SD
NEPSE	2207.83	872.00	3079.83	1792.47	594.86
USD	42.18	98.93	141.12	117.94	11.79
Gold Price	12026.22	3609.78	15636.00	6637.70	2802.57

Table 1 presents descriptive statistics for the NEPSE Index, USD Exchange Rate, and Nepal Gold Price from 2015 to 2025, summarizing central tendency, dispersion, and distributional characteristics based on 128 monthly observations for each variable. The NEPSE Index (Month End) has a mean of 1792.48, with a range from 872.00 to 3079.83, indicating significant fluctuations in stock market performance. Its standard deviation of 594.86 highlights considerable volatility, reflecting changing investor sentiment and economic conditions during the period. The USD Exchange Rate (NPR, Month End) averages 117.95, with values ranging from 98.935 to 141.12. The moderate standard deviation of 11.80 suggests relatively stable fluctuations, influenced by Nepal's fixed exchange rate system with the Indian Rupee and broader global currency trends. The Gold Price (NPR, Month End per gram) averages 6637.70, with a range from 3609.78 to 15636.00, indicating high variability. The large standard deviation of 2802.58 reflects its sensitivity to global and domestic economic factors, with gold often acting as a safe-haven asset during times of uncertainty.

3.1 Trend Analysis

Trend of Gold price, NEPSE index and USD exchange rate is studied using trend line shown in Figure 1, 2 and 3.

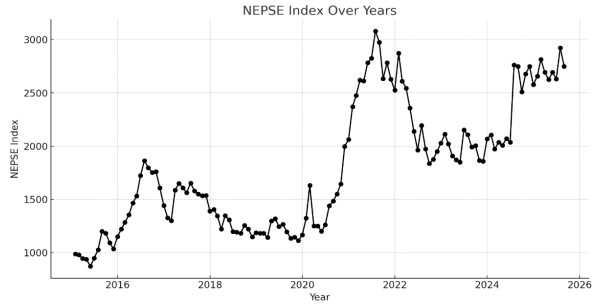

Figure 1: *shows overall growth with a sharp spike around 2021–2022, likely due to market or economic factors, followed by stabilization and gradual upward movement in recent years.*

Figure 2: shows a steady rise in gold prices from 2015 to 2025, reflecting investor confidence, with slight dips toward the end suggesting economic challenges and shifting global investment trends.

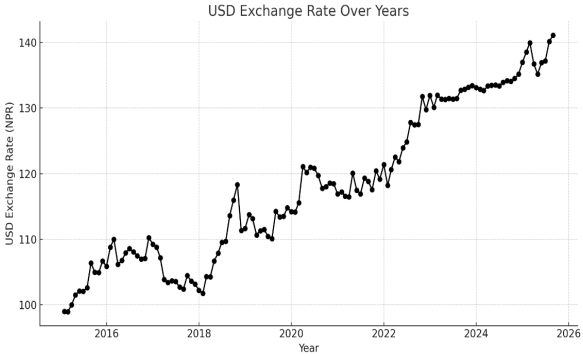

Figure 3: shows noticeable volatility with several sharp fluctuations, yet maintains an overall upward trajectory, reflecting currency strength influenced by global economic shifts and monetary policy changes.

Trend line for NEPSE index, USD exchange rate and gold rate shown in figure 1, 2 and 3 shows a steady climb in gold prices, paired with the stock market's upward trend despite its occasional volatility, suggests that these factors play a significant role in Nepal's overall economic health. Similar pattern can be seen while plotting these

three variables in a same plot as shown in Figure.

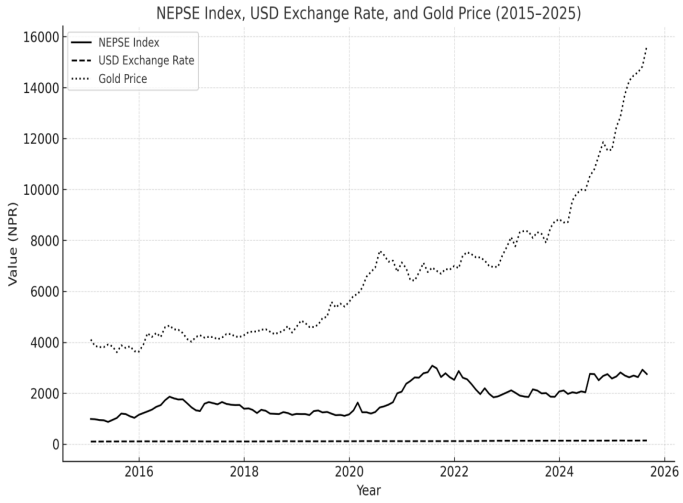

Figure 4: *Comparative Historical Trends of Macroeconomic Indicators and the NEPSE index*

4.2 Correlation analysis

Table 2: *Model Summary of Correlation*

	NEPSE	***USD***	***Gold Price***
NEPSE	1	0.694**	0.747**
USD	0.694**	1	0.906**
Gold Price	0.747**	0.906**	1

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

Karl Pearson's correlation analysis (Table 2) reveals that both gold prices and the USD exchange rate are strongly and positively associated with the NEPSE Index (Gold: r = 0.75, p < 0.001$; USD: r = 0.69, p < 0.001). These results indicate that upward trends in these macroeconomic indicators typically coincide with growth in the Nepalese stock market. Furthermore, the high correlation between gold prices and the USD exchange rate (r = 0.91, p < 0.001) confirms their interconnected influence on market dynamics, necessitating careful consideration of potential multicollinearity in subsequent regression modeling. Collectively, these findings underscore the significant role that commodity prices and currency fluctuations play in shaping stock market performance in Nepal from 2015 to 2025.

4.3 Regression Analysis

Findings in Table 3 provides collinearity diagnostics for the regression model, where the NEPSE Index (Month End) is the dependent variable, and the USD Exchange Rate (NPR, Month End) and Gold Price (NPR, Month End per gram) are the independent variables.

Table3: ***Summary table of collinearity***

	VIF	**Tolerance**
USD	5.58	0.179
Gold Price	5.58	0.179

The tolerance values for both predictors are 0.179, which exceed the 0.1 threshold, indicating that multicollinearity is not a concern. Additionally, the Variance Inflation Factor (VIF) values for both variables are 5.58, well below the commonly accepted cutoff of 10. According to Gujarati and Porter (2009) and Hair et al. (2019), tolerance values below 0.1 or VIF values above 10 indicate problematic multicollinearity. These findings suggest that the USD Exchange Rate and Gold Price are not overly correlated and can independently explain variations in the NEPSE Index (see Table 3). Thus, the model is statistically sound and suitable for regression analysis, as multicollinearity does not pose any issues.

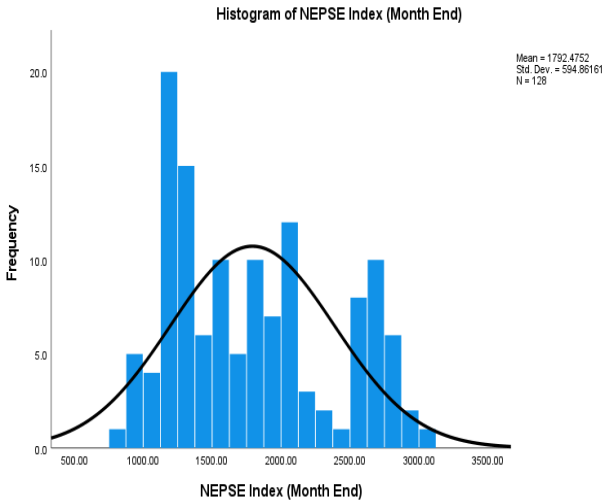

Figure 5*: Model Histogram of NEPSE Index*

The distribution of the NEPSE Index (128 monthly observations; M = 1792, SD = 595) reveals considerable volatility and significant deviations from normality. The histogram illustrates a multi-modal distribution, with peaks around 1300, 1800, and 2500 points, suggesting distinct market phases rather than a consistent growth trend. Most data points are

concentrated between 1200 and 2500, highlighting frequent shifts between growth and correction phases. This variability underscores the importance of robust risk management strategies for investors and the need for targeted stabilization policies from policymakers to ensure sustainable market development.

Table 4*: Model Summary of ANOVA*

	SS	df	MS	F
Regression	25156154.124	2	12578077.062	79.47
Residual	19784109.141	125	158272.873	(<0.001)
Total	44940263.264	127		

The ANOVA results demonstrate that the regression model is statistically significant and highly reliable. At the 1% significance level ($\alpha = 0.01$), the model reports an F-statistic of 79.471 with a p-value of 0.000, well below the threshold, indicating that the independent variables Gold Price and USD Exchange Rate significantly explain the variation in the NEPSE Index. The statistical significance of the F-test suggests that the likelihood of obtaining such results by chance is less than 1%, confirming the model's overall fitness and validity. Additionally, the coefficient of determination ($R^2 = 0.558$) reveals that approximately 55.8% of the variation in the NEPSE Index is explained by the two predictors. This relatively high R^2 value, particularly for macroeconomic time-series data, supports the model's effectiveness in explaining stock market behavior (Hair et al., 2019).

Table 5*: Regression Model fit Regression Model*

R	R Sq.	Adj. R Sq.	SE
0.748	0.56	0.55	397.83

The coefficient of determination (R^2) is 0.558, which means that approximately 55.8% of the variation in the NEPSE Index is explained by the two independent variables Gold Price and USD Exchange Rate. This indicates that the model has a moderate level of explanatory power. In practical terms, it suggests that changes in gold prices and the exchange rate account for about half of the movements in NEPSE, while the remaining variation is influenced by other economic and market factors not included in the model. A higher R^2 value generally reflects a better-fitting model; therefore, an R^2 of 0.558 demonstrates that the model effectively captures the main dynamics of NEPSE performance.

Regression analysis in Table 6 underscores the distinct roles of the USD exchange rate and gold prices in influencing the NEPSE Index. The model intercept is statistically insignificant (P-value = 0.643), serving primarily as a mathematical constant. The USD exchange rate exhibits a statistically insignificant relationship with the NEPSE Index (P-value = 0.511, $\beta_1 = 0.093$), suggesting that currency fluctuations have a minimal impact on the index, likely due to Nepal's limited integration with global capital markets. While the regression analysis also show a strong, statistically significant influence on the NEPSE Index (P-value < 0.001, $\beta_2 = 0.66$. This indicates that gold price volatility is the primary predictor in the model. The positive relationship highlights gold's role as a key safe-haven asset, with price shifts often reflecting investor sentiment, liquidity, and inflationary expectations, which in turn drive stock market behavior.

Also, the results suggest that gold prices have a significantly greater influence on the NEPSE Index than the USD exchange rate (see Table 6). For investors, this emphasizes the importance of tracking gold price trends as a key indicator for stock market

Table 6*: Model Summary of Regression Model*

	Unstandardized Coefficients		Standardized Coefficients		
	B	***SE***	***Beta***	**t**	**P-value**
Constant	307.72	661.33		0.46	0.64
USD	4.66	7.07	0.093	0.66	0.51
Gold Price	0.14	0.03	0.66	4.73	<0.001

movements. For policymakers, it suggests that regulations surrounding gold could indirectly affect stock market stability.

5. Discussion

This study provides valuable insights into the role of global macroeconomic variables in shaping stock market performance in Nepal, a relatively small and structurally unique emerging economy. The findings reveal that gold prices have a statistically significant and positive impact on the NEPSE Index, while the USD exchange rate does not exert a significant influence. These results both support and challenge existing literature, emphasizing the importance of contextual differences.

Gold, as a safe-haven asset, plays a critical role in investor behavior and market performance in Nepal, consistent with global findings (Baur & Lucey, 2010; Hood & Malik, 2013). However, the exchange rate's limited effect reflects Nepal's lower integration with global foreign exchange markets (Ibrahim & Aziz, 2003). The positive relationship between gold prices and NEPSE challenges the conventional safe-haven hypothesis, which posits that gold and stock markets typically move in opposite directions (Baur & Lucey, 2010; Beckmann et al., 2015). In developed markets, investors usually shift from equities to gold during periods of uncertainty, leading to a negative correlation. However, this study finds a complementary relationship, which aligns more with Nepal-specific studies, such as those by Bhusal and Gautam (2022), and Risal (2020). This divergence can be attributed to the structural characteristics of the Nepalese economy, where gold serves not only as a financial hedge but also as a store of wealth influenced by cultural, social, and remittance-driven factors. Rising gold prices may reflect increased liquidity in the economy, particularly driven by remittance inflows, which in turn boosts participation in the stock market. Therefore, gold in Nepal seems to function less as a hedge and more as an indicator of broader economic expansion and investor optimism.

In contrast, the USD exchange rate was found to be statistically insignificant, which differs from many international studies (Mamcarz, 2018; Ibrahim & Aziz, 2003) that emphasize the strong impact of exchange rate volatility on stock markets. This result can be explained by Nepal's fixed exchange rate regime with the Indian Rupee, which limits currency volatility and reduces its transmission to domestic financial markets. Moreover, Nepal's capital market is relatively underdeveloped, with low foreign institutional participation and restricted capital mobility. These factors reduce the relevance of the exchange rate in influencing stock market fluctuations.

Initially, correlation results suggested a strong association between both independent variables and NEPSE; however, regression analysis revealed that only gold prices have a meaningful causal impact. This highlights the importance of employing multivariate techniques, as relying solely on correlation could lead to spurious conclusions. From a theoretical perspective, the findings challenge the universal applicability of the safe-haven theory and underscore that financial relationships in emerging markets are highly context-dependent. Market inefficiencies, limited diversification opportunities, and behavioral factors may contribute to outcomes that differ significantly from those observed in developed economies.

Despite these contributions, the study has limitations. It relies on only two macroeconomic variables and a linear modeling approach, which may not fully capture complex dynamics such as nonlinear relationships or lagged effects. Additionally, the use of monthly data may overlook short-term volatility and high-frequency market responses. Overall, this study enriches the literature by demonstrating that in Nepal, gold prices play a dominant and unique role in influencing stock market performance, while the effects of the exchange rate remain subdued due to structural and policy constraints.

6. Conclusion

This study examined the relationship between the Nepal Stock Exchange (NEPSE), gold prices, and exchange rate fluctuations. The results show that gold prices significantly influence stock market volatility, while exchange rate changes have a minimal impact. From a policy perspective, the findings highlight the need for gold price monitoring, exchange rate stability, and financial market diversification. Policymakers should ensure that gold market policies do not transfer volatility to the stock market, while strengthening financial market resilience through diversification and institutional transparency is crucial for long-term stability. While talking about the impact of gold price and exchange rate with USD, Nepal's stock market is mainly driven by gold prices, while exchange rates playing a secondary role.

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