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Exchange Rate Depreciation, Currency Stabilization and Delayed Equity Market Repricing: A Conceptual Analysis of the Nigerian Stock Market

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ABSTRACT :

This paper develops a conceptual explanation of how currency depreciation and subsequent exchange-rate stabilization may influence the timing of equity-market repricing in Nigeria. The substantial naira depreciation of 2023–2024 and strong nominal performance of the Nigerian Exchange (NGX) provide a setting for examining an important valuation question: can equity prices continue adjusting after the initial currency shock? Integrating discounted cash-flow valuation, exchange-rate transmission, market efficiency and uncertainty-based theories, the paper distinguishes the effect of depreciation on expected corporate cash flows from the effect of exchange-rate uncertainty on required returns. Depreciation may increase the domestic-currency value of some earnings and assets while simultaneously raising production costs, foreign-currency liabilities and risk premia. Subsequent stabilization may support additional repricing if uncertainty-related discount rates decline and expected cash flows remain favourable. A stylized model yields four propositions concerning delayed adjustment, stabilization, heterogeneous firm exposure and the distinction between nominal, real and dollar-adjusted returns. Competing explanations for NGX appreciation and an agenda for empirical validation are considered. The paper makes a theoretical contribution; it does not establish that exchange-rate movements caused the observed equity rally.

Keywords: Exchange Rate Depreciation; Currency Stabilization; Equity Repricing; Exchange Rate Uncertainty; Risk Premium; Nigeria.
JEL Classification: F31, G12, G14, E44.

1. Introduction

1.1 Background and Research Problem

Exchange-rate movements affect equity values through corporate earnings, imported-input costs, foreign-currency debt, asset valuations and investors' required returns. In emerging economies, these effects can be particularly pronounced because currency adjustments often coincide with inflation, policy uncertainty and constraints on foreign-currency financing. Yet the direction and timing of the stock-market response remain ambiguous. Depreciation may benefit exporters and holders of foreign-currency assets while harming import-dependent firms and foreign-currency borrowers.

Nigeria offers a relevant illustration. Foreign-exchange reforms introduced in June 2023 preceded substantial naira depreciation and exchange-rate instability during 2023–2024. The currency environment subsequently became comparatively more stable during parts of 2025–2026. Meanwhile, the NGX recorded strong nominal gains: Proshare Research (2024) reported a 45.90% rise in the All-Share Index in 2023; Nigerian Exchange Group (2025, 2026) reported increases of 37.65% in 2024 and 51.19% in 2025, respectively. These figures establish that appreciation occurred *during* the depreciation episode as well as afterward. The question is therefore not why the market failed to respond initially, but whether its valuation adjustment unfolded in stages.

The proposed mechanism distinguishes two effects. First, depreciation changes expected domestic-currency cash flows and corporate balance sheets. Second, uncertainty accompanying the depreciation can raise risk premia and partially offset positive cash-flow effects. When exchange-rate conditions become more predictable, reduced uncertainty may lower required returns, allowing additional equity repricing without further major depreciation. This is a conditional explanation, not a claim of causation: earnings growth, inflation, monetary policy, liquidity and investor sentiment offer competing interpretations.

A related difficulty is that nominal NGX appreciation may overstate gains in purchasing power or foreign-currency terms. Assessing equity performance therefore requires distinguishing naira returns from inflation-adjusted and dollar-adjusted returns.

1.2 Objectives and Research Questions

The study aims to develop an integrated framework linking depreciation, uncertainty, stabilization and equity valuation. Specifically, it examines (i) how depreciation affects expected cash flows and discount rates; (ii) why valuation adjustment may occur sequentially; (iii) why responses differ across firms; and (iv) how nominal appreciation differs from real wealth creation.

Two questions guide the analysis:

1. Through what mechanisms can depreciation produce delayed equity-market repricing? **2.** Under what conditions can subsequent exchange-rate stabilization facilitate further adjustment?

Firm-level foreign-exchange exposure and the distinction between nominal and real or foreign-currency returns are additional considerations.

1.3 Contribution and Scope

The contribution is an integrated, conditional account of equity repricing that separates the *level* of the exchange rate from *uncertainty* about its future path. Rather than presenting an unfinished empirical investigation, the paper derives theoretical propositions and identifies ways to test them. It neither estimates econometric models nor attributes a quantified share of NGX appreciation to exchange-rate developments.

2. Theoretical and Empirical Literature Review

2.1 Exchange-Rate Transmission and Equity Valuation

The flow-oriented perspective links exchange rates to trade competitiveness, production costs and corporate profitability. Depreciation can raise the domestic-currency value of export receipts but also increase imported-input and foreign-debt costs. Its aggregate effect depends on the composition of listed firms. The stock-oriented perspective emphasizes asset allocation, capital flows and expectations: exchange rates and equity prices may respond jointly to changes in anticipated returns. Dornbusch and Fischer (1980) provide a foundational account of the interaction between exchange rates, expectations and external adjustment. Neither perspective implies a universally positive relationship between depreciation and stock prices.

Discounted cash-flow theory provides the valuation link. Equity prices reflect expected distributions to shareholders and the returns investors require to bear risk. Campbell and Shiller (1988) show the relevance of expected earnings and dividends to valuation. A depreciation shock may therefore raise nominal earnings expectations for some firms while increasing the discount rate applied to those earnings. These channels can offset one another.

2.2 Market Efficiency and Delayed Adjustment

Fama's (1970) efficient market hypothesis implies that available information should be reflected in security prices. Delayed appreciation following a public depreciation shock might therefore appear inconsistent with market efficiency. However, the initial exchange-rate change and subsequent information about its persistence, corporate profitability and macroeconomic uncertainty are not identical information events. Prices can adjust efficiently at each stage as new information arrives. Delayed repricing need not imply that investors ignored the initial shock; it may reflect sequential revisions to expected cash flows and required returns. Information frictions and transaction costs could create additional delays, but the framework does not require them.

2.3 Exchange-Rate Uncertainty and Firm Exposure

Bloom (2009) explains how uncertainty shocks can delay investment and economic adjustment, while Baker, Bloom and Davis (2016) document the importance of policy uncertainty. In currency markets, uncertainty may increase the risk of imported-input costs, debt servicing and future profit forecasts. Investors may consequently require higher returns, lowering equity valuations even where expected nominal earnings rise.

These effects differ across firms. Adler and Dumas (1984) distinguish economic currency exposure from simple accounting translation. Exporters, import-dependent manufacturers and financial institutions may respond differently because their revenues, costs, liabilities and pricing power differ. Aggregate NGX performance therefore cannot be interpreted as evidence that depreciation benefited all listed companies.

2.4 Distinguishing Uncertainty from Volatility

Exchange-rate volatility and uncertainty are related but not identical. Realized volatility describes the dispersion of observed exchange-rate changes, whereas uncertainty concerns the range of future outcomes perceived by decision-makers. High realized volatility may increase uncertainty, but credible policy announcements or improved market functioning can change expectations even before realized volatility declines. This distinction matters because the proposed valuation mechanism works through investors' expectations and required returns, not mechanically through the statistical variance of exchange-rate changes.

For empirical work, GARCH-based conditional volatility may provide a practical proxy, but it cannot capture every aspect of currency uncertainty.

Measures based on forecast dispersion, policy uncertainty or market-implied expectations could provide complementary evidence where reliable data are available. The conceptual argument is consequently broader than any particular volatility estimator.

2.5 Nigerian Evidence and Conceptual Gap

Research on Nigerian listed firms, including Asaolu (2011), has examined exchange-rate exposure and its relevance to stock returns. Nevertheless, such evidence does not resolve the specific question of whether the 2023–2024 depreciation and later stabilization produced distinct valuation effects. The strong NGX gains in 2023, 2024 and 2025 make a simple narrative of *no initial response followed by a delayed response* untenable. A more defensible interpretation allows for immediate appreciation and subsequent adjustment driven by changing earnings expectations or discount rates.

The gap addressed here is thus conceptual: existing mechanisms need to be integrated in a way that distinguishes depreciation-induced cash-flow effects, uncertainty-related risk premia, sequential information arrival and the difference between nominal and economically meaningful returns.

3. Conceptual and Analytical Framework

3.1 Transmission Mechanism

The framework comprises five linked stages: **(1)** depreciation changes the domestic-currency values of revenues, costs, assets and liabilities; **(2)** currency instability changes uncertainty and required returns; **(3)** equity prices incorporate the combined cash-flow and discount-rate effects; **(4)** stabilization may reduce uncertainty and improve earnings visibility; and **(5)** equity values may adjust further if discount rates decline without offsetting deterioration in expected cash flows.

The sequence is not automatic. Depreciation can reduce cash flows for import-intensive or indebted firms, while stabilization may coincide with adverse earnings or interest-rate developments. The proposed mechanism is therefore conditional on firms' exposures and broader macroeconomic conditions.

3.2 A Stylized Valuation Model

Under a simplified constant-growth valuation model,

$$P_t = \frac{CF_t}{k_t - g_t}, \qquad k_t > g_t,$$

where P_t is equity value, CF_t is expected next-period cash flow available to shareholders, k_t is the required return and g_t is expected perpetual growth. Let E_t denote naira per US dollar, so an increase represents depreciation. If cash flows depend on E_t and required returns respond to exchange-rate conditions, then, holding other determinants and g_t constant,

$$\frac{\partial P_t}{\partial E_t} = \frac{1}{k_t - g_t}\frac{\partial CF_t}{\partial E_t} - \frac{CF_t}{(k_t - g_t)^2}\frac{\partial k_t}{\partial E_t}.$$

The first term is the cash-flow effect; the second is the discount-rate effect. Even if depreciation raises expected cash flows, the net price response may be small or negative when required returns rise sufficiently. For firms whose cash flows decline with depreciation, both channels may depress valuations.

To isolate uncertainty, suppose

$$k_t = k_0 + \lambda U_t, \qquad \lambda > 0,$$

where U_t is exchange-rate uncertainty and k_0 includes other determinants of required returns. Then

$$P_t = \frac{CF_t}{k_0 + \lambda U_t - g_t}$$

and, holding cash flows and growth constant,

$$\frac{\partial P_t}{\partial U_t} = -\frac{\lambda CF_t}{(k_0 + \lambda U_t - g_t)^2} < 0$$

for positive expected cash flows and a positive denominator. Thus, within this stylized specification, declining uncertainty raises valuation through a lower required return. This is a theoretical result under stated assumptions, not an empirical finding about Nigeria.

3.3 Delayed Repricing and Numerical Illustration

Consider valuations before depreciation (P_0), immediately after depreciation (P_1) and after subsequent stabilization (P_2):

$$P_0 = \frac{CF_0}{k_0 - g}, \qquad P_1 = \frac{CF_1}{k_1 - g}, \qquad P_2 = \frac{CF_1}{k_2 - g}.$$

Suppose depreciation raises expected nominal cash flows but uncertainty increases the required return. If stabilization later reduces the required return such that $k_2 < k_1$, with cash flows and growth unchanged, then $P_2 > P_1$. The subsequent gain reflects a discount-rate adjustment rather than another depreciation-induced cash-flow increase.

For illustration, suppose expected annual cash flow is ₦10 billion, growth is 4% and the required return is 14%. The implied value is ₦100 billion. Depreciation raises expected cash flow to ₦14 billion but uncertainty increases the required return to 18%; the value remains ₦100 billion. If stabilization reduces the required return to 15%, valuation increases to approximately ₦127.27 billion. These are **hypothetical figures**, not estimates for the NGX or any listed firm. They demonstrate how simultaneous cash-flow and risk-premium changes can produce sequential valuation adjustment.

3.4 Conditions and Limits of the Mechanism

The sequential-repricing argument requires several assumptions. First, depreciation must improve expected nominal cash flows for at least some firms, or otherwise create a valuation effect that is not entirely adverse. Second, currency uncertainty must contribute positively to required returns. Third, subsequent stabilization must reduce that uncertainty component sufficiently to matter for valuations. Fourth, the improvement must not be offset by weaker earnings, higher interest rates or other adverse developments.

These conditions also clarify when the mechanism fails. Firms with large unhedged foreign-currency liabilities may suffer enduring balance-sheet damage, so currency stabilization alone may not restore their valuations. Exporters whose foreign-currency revenues are offset by imported costs may receive little net benefit from depreciation. If stabilization is already anticipated, its valuation effect may be reflected in prices before observed volatility declines. Finally, an appreciation driven mainly by speculative inflows or changing market liquidity would not constitute evidence of the proposed mechanism.

A related identification problem is reverse causality: portfolio inflows supporting equities may also support the naira. Therefore, the co-movement of a stable currency and rising equities cannot, without additional evidence, establish that stability caused the rally.

3.5 Theoretical Propositions

Proposition 1 — Delayed nominal repricing. Depreciation may generate delayed equity-price adjustment when positive effects on expected domestic-currency cash flows are initially offset by increased uncertainty and required returns.

Proposition 2 — Stabilization channel. Following depreciation, greater exchange-rate stability may facilitate additional equity repricing when reduced uncertainty lowers required returns without materially weakening expected cash flows.

Proposition 3 — Firm heterogeneity. Currency-related valuation responses depend on firms' foreign-currency revenues, imported inputs, foreign-currency liabilities and ability to pass cost increases to customers.

Proposition 4 — Investor wealth. Nominal equity appreciation after depreciation need not imply equivalent gains in real purchasing power or foreign-currency wealth.

Each proposition is conditional and requires empirical testing. In particular, Proposition 2 would not hold where deteriorating earnings or higher non-currency risk premia offset the valuation benefit of stabilization.

3.6 Nominal, Real and Dollar-Adjusted Returns

Let I_t denote the NGX index, CPI_t the consumer price index and E_t naira per dollar. The nominal log return is

$$r_t^N = \ln(I_t) - \ln(I_{t-1}).$$

The inflation-adjusted log return is

$$r_t^R = r_t^N - [\ln(CPI_t) - \ln(CPI_{t-1})],$$

while the dollar-adjusted log return is

$$r_t^{USD} = r_t^N - [\ln(E_t) - \ln(E_{t-1})].$$

These identities show why strong naira-denominated appreciation need not imply comparable real or dollar gains. For example, if the NGX index and the naira-per-dollar exchange rate both rise by 50%, the index's dollar value is unchanged, before dividends and transaction costs. Appropriate performance benchmarks depend on the investor's currency and consumption objectives.

4. Discussion and Implications for Nigeria

4.1 Interpreting Depreciation and Stabilization

Nigeria's 2023–2024 currency adjustment affected firms through imported costs, foreign-currency obligations, nominal revenue translation and changing inflation expectations. At the same time, exchange-rate uncertainty complicated financial planning and investor valuation. The proposed framework allows these effects to coexist: some equities could appreciate immediately because of revised cash-flow expectations, while others could face adverse cost or risk-premium effects.

The substantial NGX gains during 2023–2024 rule out a blanket claim that the market did not respond to depreciation. The relevant question is whether the adjustment continued as information about profitability and exchange-rate conditions evolved. Comparatively greater currency stability during parts of 2025 may have improved forecasting and reduced uncertainty-related valuation discounts, potentially supporting additional appreciation. Yet this mechanism has not been isolated empirically, and it cannot explain the entire market rally by assumption.

Nor does stabilization guarantee continuing price increases. Once improved predictability and revised earnings expectations are incorporated into valuations, future returns depend on new developments in profitability, growth and required returns. A one-time repricing mechanism cannot indefinitely sustain extraordinary appreciation.

4.2 Alternative Explanations

Several factors could account for NGX performance independently of delayed currency-related adjustment. **Corporate earnings** may improve because of higher nominal sales, stronger margins or sector-specific developments. **Inflation** can increase nominal revenues and asset replacement values without equivalent real wealth creation. **Monetary policy** influences risk-free rates, discount rates and the relative attractiveness of equities versus fixed-income assets. **Institutional liquidity** and domestic portfolio reallocations can affect equity demand, particularly in a market with limited freely traded shares. **Investor sentiment and momentum** can amplify price changes beyond those immediately justified by fundamentals.

These explanations may operate simultaneously. Consequently, neither a temporal sequence of depreciation, stabilization and equity appreciation nor the theoretical plausibility of delayed repricing establishes causality.

4.3 Sectoral Transmission and Market Aggregation

The NGX All-Share Index aggregates firms with different foreign-exchange exposures. Banks may face valuation changes through foreign-currency assets, loan quality and regulatory capital; manufacturers may face imported-input costs and pressure on domestic consumers; exporters may benefit from the naira value of overseas receipts. Even within a sector, the ability to hedge currency risk, adjust selling prices and refinance liabilities can materially change the outcome.

This heterogeneity limits the explanatory power of aggregate market trends. A rising index may be driven by a relatively small number of heavily weighted companies whose cash flows respond favourably to depreciation, even while other firms experience losses. A firm-level empirical design is therefore particularly valuable for distinguishing currency exposure from broad macroeconomic co-movement. It would also help determine whether observed appreciation reflects improved profitability or simply changes in the domestic-currency unit of account.

4.4 Implications for Investors and Risk Managers

Investors should assess whether equity gains reflect sustainable earnings, lower discount rates or primarily nominal adjustments. Firm-specific foreign-exchange exposure matters: an exporter with domestic costs may benefit from depreciation, while an importer with dollar liabilities may suffer. Inflation-adjusted and dollar-adjusted returns should complement naira-denominated performance when evaluating investment outcomes.

For financial risk management, exchange-rate regimes may alter equity-return volatility and downside dependence. Risk models calibrated during currency stability may inadequately describe losses during renewed depreciation shocks, while models estimated during extreme instability may overstate subsequent risk. This motivates future comparisons of Value-at-Risk (VaR) and Expected Shortfall (ES) models with and without exchange-rate uncertainty or regime information. No such forecasting improvement is asserted or tested here.

4.5 Policy Implications and Empirical Research Agenda

Credible and durable exchange-rate arrangements may support capital-market valuation by reducing uncertainty surrounding corporate planning and investment returns. However, apparent stability maintained through unsustainable measures may not produce lasting confidence. Policymakers should also avoid equating nominal stock-market appreciation with improvements in real welfare or productive investment.

Future research should test the proposed mechanism through **dynamic models** (distributed lags or local projections) that separate immediate and subsequent responses; **nonlinear specifications** interacting depreciation with estimated exchange-rate volatility; and **structural-break or regime-switching models** distinguishing high-uncertainty and stabilization periods. **Firm-level panel models** could identify how export revenues, import

dependence and foreign-currency debt shape responses. Studies should compare nominal, real and dollar-adjusted NGX returns and control for inflation, interest rates, oil prices, corporate earnings and liquidity. Extensions could test whether exchange-rate regime information improves conditional VaR and ES forecasting and backtesting. These designs must address the endogeneity of exchange rates and equity prices rather than treating temporal association as proof of causation.

5. Conclusion

This paper has developed a conceptual framework for understanding how currency depreciation and subsequent stabilization may influence equity-market valuations through different but interacting channels. Depreciation changes the domestic-currency value of corporate cash flows, assets and liabilities; accompanying uncertainty may increase required returns and partially offset positive cash-flow effects. Subsequent stabilization can facilitate further repricing if uncertainty-related risk premia decline while expected cash flows remain favourable.

A stylized discounted cash-flow model formalized these competing effects and yielded four propositions concerning delayed repricing, stabilization, firm-level heterogeneity and the distinction between nominal and real or foreign-currency-adjusted investor returns. Nigeria's 2023–2025 experience motivates the framework, but the substantial NGX appreciation during the depreciation episode itself demonstrates that the issue is the *timing and composition* of adjustment, not an absence of initial market response.

The paper's principal limitation is its conceptual design: it does not identify exchange-rate shocks, estimate their effects or establish that stabilization caused the NGX rally. Corporate earnings, inflation, monetary conditions, liquidity and sentiment remain plausible alternative or complementary explanations. Future researchers should evaluate the propositions with dynamic and nonlinear models, firm-level exposure data and regime-sensitive risk measures. The central conclusion is that depreciation and stabilization can affect equity prices through distinct cash-flow and discount-rate mechanisms, and understanding their interaction is essential for interpreting nominal market appreciation in a changing currency environment.

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