

Abstract

Financial performance is a critical indicator of organizations' overall profitability and health. Return on equity (ROE) is a crucial metric that reflects a firm's operational efficiency and attractiveness to investors and is commonly used to assess performance across industries. Recent trends in Nairobi Securities Exchange (NSE)-listed investment firms show a concerning decline in ROE, dropping from 10.3% in 2019 to 4.2% in 2022, before a slight recovery to 7.2% in 2023. If unaddressed, the declining ROE may discourage investment, reduce market liquidity, increase borrowing costs, and slow economic development. The study aimed to assess the effect of inflation rate on the financial performance of NSE-listed investment firms. The Quantity Theory of Money, guided the research. A descriptive research design was employed to analyze secondary data collected from reliable sources, including the Central Bank of Kenya (CBK), NSE reports, company websites, and Capital Markets Authority (CMA) handbooks. The target population consisted of five NSE-listed investment firms: Olympia Capital Holdings Ltd, Centum Investments Co Ltd, Trans-Century Ltd, Kurwitu Ventures, and Home Afrika Ltd. Given the small number of firms, the study adopted a census approach, analyzing all five companies. Data was processed using Microsoft Excel to compute descriptive statistics, including frequencies, percentages, and measures of central tendency, providing insights into financial trends and macroeconomic influences. The findings indicated that inflation rate had a statistically significant relationship with financial performance, with the model explaining approximately 74.8% of the variation in ROE. The study concluded that inflation rate played a key role in influencing firm performance. The study recommended that investment firms should incorporate macroeconomic indicators into decision making, while policymakers were encouraged to maintain economic stability. The findings benefit investment firms by improving risk management strategies and operational efficiency. Policymakers and regulatory bodies gain insights into external economic factors affecting investment firms, enabling them to formulate policies that foster financial stability. Additionally, academics find value in this study as it expands the body of knowledge on macroeconomic influences on financial performance in emerging markets such as Kenya.

Key Words: Inflation Rate, Financial Performance, Investment Firms, Nairobi Securities Exchange