

Abstract

Currently, investment banks in Kenya are facing a lot of challenges due to persistence losses. However, the available studies are inadequate to aid investment banks in overcoming these challenges in Kenya due to mixed findings, resulting in rising uncertainty on equity investments performance, leading to massive losses among investment banks. This study, therefore, sought to model the relationship between inflation, GDP, interest rates, exchange rates, and financial performance of investment banks. Arbitrage pricing theory, Modern portfolio theory, as well as classical economic theory (flow oriented model) was used. A causal research design was adopted. The study found that inflation has negative significant influence on financial performance of equity investments among investment banks in Kenya. Also, GDP has positive and significant influence on financial performance of equity investments among investment banks in Kenya. Interest rate was also found to have negative and significant influence on financial performance of equity investments among investment banks in Kenya. In addition, exchange rate has negative significant influence on financial performance of equity investments among investment banks in Kenya. The study therefore recommends any investor including financial investors to methodically analyze inflation trends and understand how it affects the company's financial performance. Investors must also be in a position to predict the future concerning inflation changes.