

INVESTMENT IN GOVERNMENT SECURITIES AND STOCK RETURN OF INVESTMENT FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE, KENYA

Mutua Franklin Muthangya.

MBA Candidate, School of Business and Entrepreneurship, Jomo-Kenyatta University of Agriculture and Technology (JKUAT), Kenya.

Dr. Hesbon N. Otinga, PhD (PhD, CPA).

Lecturer, School of Business and Entrepreneurship, Jomo-Kenyatta University of Agriculture and Technology (JKUAT), Kenya.

Dr. Vincent Nyagilo (EBS K, PhD, CPA).

Lecturer, School of Business and Entrepreneurship, Jomo-Kenyatta University of Agriculture and Technology (JKUAT), Kenya.

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ABSTRACT

Performance of investment firms has been challenged by many emerging factors which are exacerbated by dynamic business environment. Many scholars have used firm related factors, both internal and external to evaluate contributing factor to investment firms' performance with little regard to portfolio diversification approaches. Therefore, lack of adequate empirical evidence on the significant effect of investment portfolio on performance of investment firms listed at Nairobi Securities Exchange, Kenya. The specific objective was to determine the effect of investment in government securities on performance of investment firms listed at Nairobi Securities Exchange, Kenya. Q theory of investment informed the study. The study adopted descriptive survey design and used a secondary data collection sheet to collect secondary data. The study targeted investment firms listed at NSE where a census method was used to select all the respondents to participate in the study. This study covered a 10-year period from 2016

to 2025. The study used secondary data that was extracted from the websites of the respective listed firms. Descriptive statistics summarized data into meaningful forms while for variable relationships, inferential statistics was computed using STATA 15. All analyzed data was presented in form of tables and graphs. The study found that investment portfolio has a positive and significant effect on stock returns of investment firms listed at the Nairobi Securities Exchange, with the model explaining 70.04% of the variation in performance ($R^2 = 0.7004$). Government securities contribute through low-risk and stable income. It recommends that firms adopt optimal asset allocation strategies by balancing high-return assets with low-risk investments to achieve sustainable returns and minimize exposure to market volatility.

Key words: Government Securities, Stock Return, Investment Firms, Nairobi Securities Exchange.

INTRODUCTION

Investment plays a pivotal role in economic growth by mobilizing capital, facilitating resource allocation, and generating wealth for individuals and institutions (Maswadeh, 2020). Stock returns serve as a key indicator of investment performance, reflecting profitability, market confidence, and overall financial stability (Olaolu, Shu'ara & Saidu, 2023). Effective investment portfolio, which involves spreading funds across multiple asset classes such as shares, government securities, real estate, and fixed deposits, is crucial for minimizing risk and enhancing returns (Markowitz, 1952). By diversifying portfolios, firms can reduce exposure to individual asset volatility, stabilize earnings, and support sustainable economic development (Ngware & Muluka, 2024). In the context of emerging economies such as Kenya, the

performance of investment firms listed at the Nairobi Securities Exchange is particularly significant, as it influences investor confidence, capital formation, and broader financial market stability (Kioko & Ochieng, 2020). Understanding the interplay between diversification strategies and stock returns is therefore critical for optimizing firm performance and fostering economic growth.

From an economic perspective, investment portfolio decisions are fundamental to the allocation of scarce capital and the efficient functioning of financial markets. Classical and modern economic theories posit that firms act as rational agents seeking to maximize expected returns subject to risk, liquidity, and uncertainty constraints (Markowitz, 1952; Fama, 1970). In this framework, portfolio composition determines not only firm-level performance but also the broader efficiency of capital markets through price discovery and risk sharing. Asset allocation choices influence expected returns, volatility, and resilience to economic shocks, making investment portfolio management a key mechanism through which micro-level firm behavior interacts with macroeconomic outcomes such as financial stability and economic growth (Bodie et al., 2021).

Investment firms listed at the Nairobi Securities Exchange operate within an emerging market characterized by information asymmetry, market imperfections, and sensitivity to macroeconomic fluctuations. Their portfolio choices—particularly the balance between risky assets and low-risk instruments such as fixed deposits—reflect strategic responses to interest rate movements, inflation expectations, and financial market volatility (Nguyen & Vo, 2020). From an economic standpoint, firm performance measured through market-based indicators captures how efficiently these firms transform invested capital into economic value under prevailing market conditions. However, empirical evidence on the relationship between investment portfolio structure and performance of listed investment firms in Kenya remains limited, despite the sector's importance in mobilizing savings and supporting capital market development.

Investment in government securities forms an essential component of a well-diversified investment portfolio due to their low risk profile and macroeconomic significance. From an economic standpoint, government securities such as treasury bills and bonds are regarded as near risk-free assets, as they are backed by the sovereign's ability to tax and borrow. Within portfolio theory, these instruments contribute to risk reduction and income stability, improving the risk–return trade-off when combined with higher-risk assets (Markowitz, 1952; Bodie, Kane, & Marcus, 2021). Government securities also play a critical role in the transmission of fiscal and monetary policy, as yields respond to inflation expectations, interest rate adjustments, and public borrowing requirements (Fama & French, 2015). For investment firms, particularly those listed at the Nairobi Securities Exchange, investment in government securities enhances portfolio stability, provides predictable returns, and offers liquidity, thereby supporting both firm-level performance and broader capital market stability.

Investment portfolios profoundly impact corporate performance globally by affecting profitability, liquidity, and market value. In the United States, companies prioritise

diversification across several asset classes to get risk-adjusted returns and ensure financial stability. Equity and unit trust investments aim for capital appreciation, whilst government securities provide liquidity and mitigate market volatility risk. Fama and French (2004) emphasise that proficient portfolio management enables U.S. companies to maximise profits while reducing systemic risk. By integrating high-yield and low-risk assets, firms attain both short-term adaptability and long-term development potential. Strategic investment portfolios increase investor trust, augment corporate value, and facilitate access to funding. Thus, portfolio composition is essential to corporate financial strategy, allowing U.S. companies to adjust to changing market circumstances while maintaining profitability.

In developing countries like India and Bangladesh, investment portfolios are widely acknowledged as essential for reducing financial risks and enhancing investor confidence. Companies deliberately distribute resources across unit trusts, shares, government securities, and real estate to achieve a balance between growth and stability. Shaheen, Yasser, and Ashraf (2022) contend that effective portfolio management increases profitability, mitigates operational and financial risk, and boosts overall business performance. In these unstable markets, investment choices are crucial for company sustainability, allowing companies to adapt successfully to macroeconomic changes. Research indicates that companies with diverse portfolios demonstrate greater resilience, improved capital efficiency, and continuous development, highlighting the significance of portfolio management in developing markets characterised by restricted access to external funding and recurrent market volatility.

In South Africa, investment portfolio methods profoundly impact financial performance, especially in the banking and financial industries, where portfolio and asset diversity influence risk and return results. Research conducted in many African locations indicates that revenue and asset diversification correlate with reduced financing costs and enhanced income stability, hence improving the long-term financial performance of banks (Shabir et al., 2024). South African financial institutions operate under a rigorously regulated framework, where diversification choices collide with regulatory capital mandates, impacting performance results. Furthermore, South Africa's advanced capital markets draw foreign portfolio investments, although their immediate short-term effects on overall portfolio performance may fluctuate, indicating that market turnover and investor behaviour significantly influence returns (Olubodun, Ogbebor & Wale-awe, 2025). These dynamics highlight the intricate function of diverse investment portfolios in mitigating risk and enhancing performance in a prominent African financial center.

Investment firms registered on the Nairobi Securities Exchange depend significantly on meticulously structured investment portfolios to improve financial performance. These businesses generally distribute capital across unit trusts, shares, government assets, and corporate bonds to optimise risk and return. Unit trusts provide liquidity and moderate returns, while stocks have larger potential returns accompanied by increased volatility (Muriithi & Gathenya, 2023; Njoroge & Kimani, 2022). Government securities provide stability and reliable income, facilitating liability matching for policyholder commitments. Empirical research demonstrates that insurance firms with diverse portfolios often attain greater

profitability, enhanced liquidity, and superior market value. Conversely, excessive concentration in high-risk assets exposes insurers to market shocks, thereby compromising financial resilience and shareholder trust.

Investment companies registered on the NSE use their knowledge to manage portfolios that provide consistent returns for customers and shareholders. These companies mostly allocate capital between shares, government bonds, and unit trusts, seeking to attain an optimum equilibrium between risk and return (Karanja & Ndegwa, 2023; Muturi & Wambua, 2022). Government securities give consistent returns, stocks facilitate capital appreciation, and unit trusts enhance liquidity and diversity. Empirical research indicates that investment companies with strong portfolio management systems demonstrate superior financial performance, market credibility, and client trust. Conversely, companies with inadequately constructed portfolios may encounter underperformance, capital depletion, and reputational hazards. Thus, strategic allocation and risk management are essential factors influencing the financial results of investment enterprises in Kenya.

Statement of the Problem

Investment plays a pivotal role in economic growth by mobilizing capital, facilitating resource allocation, and generating wealth for individuals and institutions (Kinyua, Muturi & Simiyu, 2022). Stock returns serve as a key indicator of investment performance, reflecting profitability, market confidence, and overall financial stability (Magather, 2024). In the context of emerging economies, the performance of investment firms is particularly significant, as it influences investor confidence, capital formation, and broader financial market stability (Olaolu, Shu'ara & Saidu, 2023). However, investment firms listed at the Nairobi Securities Exchange have exhibited substantial fluctuations in performance between 2016 and 2025, as measured by stock returns. A year-by-year examination of mean stock returns across five major firms reveals pronounced volatility and disparities among firms. In 2016, the mean stock return was 2,181.47, reflecting relatively low average performance, with some firms reporting negative returns (Olympia Capital at -0.2727 and Home Afrika at -0.1379). In 2017, the mean increased to 3,848.27 although other firms such as Home Afrika (-0.44) and Olympia Capital (-0.4625) continued to report negative returns. The trend continued in 2018, with the mean stock return rising to 4,562.69. Despite this increase, volatility persisted as firms like TransCentury (-0.4625) and Home Afrika (-0.1286) experienced losses. By 2019, the mean stock return further rose to 6,262.84, yet individual firm returns ranged from -0.4318 (Olympia Capital) to 31,312.96 (Centum), illustrating extreme disparities. In 2020, the mean stock return slightly declined to 5,506.92 due to negative returns from firms like Home Afrika (-0.2623) and TransCentury (-0.4318). In 2021, the mean decreased to 4,562.97, reflecting a normalization trend with negative returns for Home Afrika (-0.1111) and TransCentury (-0.42). The mean continued to decline in 2022 to 3,059.01, and by 2024 and 2025, mean returns dropped dramatically to 0.66395 and 0.20541, respectively, indicating a sharp contraction in average performance across firms (NSE, 2025). These year-by-year trends highlight significant inconsistencies in firm performance and underscore the potential influence of investment strategies and portfolio diversification. In this regard, Sethilnathan (2020) argued that in investment, risk and return are the most crucial measures in making investment decisions; and

that even though investors are aware of the benefits of diversification they appear to adopt a naive diversification strategy where they form portfolios without giving proper consideration to the correlations among the stocks. Kioko and Ochieng (2020) in their study on performance of investment firms in Kenya found that while real estate and shares investment showed positive relationship, government investment revealed a negative relationship with performance, thus suggesting a further empirical inquiry in the existence of the negative relationship. Arising from continuous decline in performance of investment firms in Kenya and inconclusive findings on the effect of diversification on Performance of investment firms, motivated this study to fill these contextual and empirical gaps by examining.

Research Objective

- i. To assess the effect of investment in government securities on stock return of investment firms listed at Nairobi Securities Exchange, Kenya

Literature Review

Q Theory of Investment

This theory was proposed by Tobin and Brainard (1968). The hypothesis emanates from neoclassical theory as it integrates the alteration cost which explains output losses. Twine, Kiiza and Bashaasha (2015) argued that organizations select levels of investment which makes use of the present firm value. The hypothesis proposes that market approximation of equities is the main element of firms' investment. Therefore, decisions of investment are stimulated when funding bases are extremely valued in the market residence than it would charge to produce it (Erickson & Whited, 2000). The hypothesis is related to the rate of investment of Q function. Q function is the ratio of market price of fresh added investment capitals to their extra cost. According to Eklund (2013) the theory of investment gives suggestion that metric q done to recap the existence of occasions for investments for exact organizations. Tobin also argued that q is greater than 1 which means that fixing new capital will have more profit to the exact organization. Henceforth $1 < q$ shows that the firm should accumulate more wealth and vice versa (Balfoussia & Gibson, 2016). In this study, the Q theory of investment was critical to explaining if the investment levels chosen by a firm enhances its efficiency in this case investment in government securities. The merits of this theory is that by comparing the market value of investments to its equity book value, it helps most financial institutions in predicting investment behavior for instance investment in bonds and money markets. This theory is relevant to the present study as it seeks to examine the relationship between investment portfolio particularly from the standpoint of investment in government securities on the Performance.

Empirical Studies

Babarinde, Yusuf, Abdulmajeed, and Adelodun (2025) found that investment securities positively and significantly influenced earnings per share and return on assets among deposit money banks in Nigeria, although the long-run effect on earnings was negative and insignificant. Similarly, Jepkemoi and Ngahu (2023) established that investment in government securities significantly improved the financial performance of insurance firms in Kenya. Comparable findings were reported by Majengo, Otinga, and Miroga (2023), who observed

that government securities positively influenced profitability of listed commercial banks in Kenya. Likewise, Ndungu and Bosire (2020) reported a strong positive correlation between investment in government securities and financial performance among listed commercial banks. These studies therefore converge on the argument that government securities enhance financial stability and profitability. However, they differ in context, methodology, and sectoral focus, as Babarinde et al. (2025) used P-ARDL in Nigerian banks, Jepkemoi and Ngahu (2023) focused on insurance firms, while Majengo et al. (2023) and Ndungu and Bosire (2020) concentrated on Kenyan commercial banks.

Kimorop (2025) reported that bond investments had a negative and significant effect on profitability of listed investment firms in Kenya, while equity investments positively affected performance and short-term securities remained insignificant. In contrast, Kenga, Banafa, and Ali (2024) found that bond investment portfolios positively and significantly affected the financial performance of retirement benefits schemes in Kenya. Similarly, Nzau, Kung'u, and Onyuma (2019) concluded that bond issuance significantly improved the financial performance of firms listed on the Nairobi Securities Exchange. The findings therefore contrast considerably regarding the profitability effect of bond-related investments. While Kimorop (2025) associated bond investments with reduced profitability, Kenga et al. (2024) and Nzau et al. (2019) linked them with improved financial performance. The differences may arise from variations in institutional context, measurement of performance, sample composition, and methodological approaches adopted across the studies.

Ngunjiri (2022) established that green revenue bonds, green proceeds bonds, and green project bonds positively and significantly influenced financial performance of listed banks and investment firms in Kenya, although securitized bonds negatively affected performance. Similarly, Teixeira, Vieira, and Ferreira (2021) found that government debt securities positively affected long-run profitability of commercial banks in Cape Verde. However, Teixeira et al. (2021) further observed that consolidated securities of financial mobilization negatively affected profitability in both the short and long run. These findings are comparable because both studies emphasize the importance of securities investment in improving profitability, yet they also identify categories of securities with adverse effects. Nevertheless, the studies differ in focus, as Ngunjiri (2022) concentrated specifically on green bonds within Kenya, whereas Teixeira et al. (2021) examined broader government debt securities in Cape Verde's banking sector.

Ngware (2021) found that portfolio diversification, including government securities, positively and significantly influenced financial performance of commercial banks in Kenya, with bank size positively moderating the relationship. Similar conclusions were reached by Asuma (2022), who established that investments in treasury bills and other non-core business investments significantly affected financial performance of deposit-taking SACCOs in Kenya. Likewise, Majale and Olweny (2024) found that investments in treasury bills, commercial paper, and certificates of deposits positively and significantly influenced financial performance of commercial banks in Kenya. These studies therefore agree that diversified investment in government and money market securities contributes positively to institutional financial

performance. However, they differ in institutional coverage and scope. Ngware (2021) focused on commercial banks using system GMM techniques, Asuma (2022) examined SACCOs through descriptive and panel regression analysis, while Majale and Olweny (2024) concentrated on money market instruments among Kenyan commercial banks.

Conceptual Framework

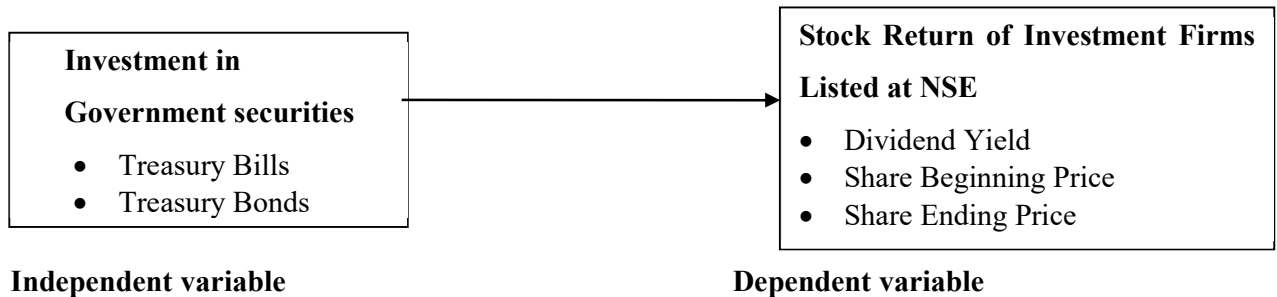


Figure 1: Conceptual Framework

Investment in government securities was measured using the ratio of treasury bills to treasury bonds held by investment firms listed at the Nairobi Securities Exchange, Kenya. The ratio assessed the balance between short-term and long-term government securities within firms’ investment portfolios, where treasury bills represented liquidity-oriented short-term investments while treasury bonds reflected long-term stable income investments. Stock returns were measured using the percentage change in share value, incorporating both capital gains and dividend income. Specifically, stock returns were computed using beginning share price, ending share price, and dividend per share to capture shareholder gains or losses over the study period.

RESEARCH METHODOLOGY

This study adopted descriptive research design. That is, descriptive research involves collecting data that answers questions from sampled participants of the study. It was appropriate when the researcher wishes to provide an accurate representation of persons, events or situations, according to Saunders et al. (2012), and make inferences about the target population. The target population for this study was those cases that contain the desired information consists of 5 investment firms listed at NSE with a total of 50 observations between 2016 and 2025. In this regard, the unit of analysis was the investment firms. This study’s sampling frame was the 5 investment firms listed at NSE. Since the target population is less than 100 respondents, a census method was adopted to select all the five investment firms listed at NSE.

Secondary data was obtained from NSE handbooks. The researcher first obtained an introductory letter from the university which facilitated the acquisition of NSE handbooks. The researcher then contacted NSE and requested NSE handbook between 2016 and 2025. Panel data is highly appropriate for the study of Performance in listed investment firms, especially when examining five firms over seven years (2016–2025). The use of panel data combines both time-series and cross-sectional data, offering a broader perspective and analytical depth. The

data collected was used to compute ratios for individual study variables. The research utilized quantitative data analysis techniques. The gathered data was processed, cleaned, coded and calculated using STATA 15. A descriptive statistical analysis described data in understandable form, using frequencies, percentages, means and standard deviations; whereas inferential statistics, correlation, linear and multiple regression analyzes was calculated for variable relations. Data was presented in form of tables and graphs.

FINDINGS AND DISCUSSION

Descriptive Statistics

Table 1 presents the descriptive statistics for stock returns and investment in government securities among investment firms listed at the Nairobi Securities Exchange over the period 2016–2025, based on 50 observations. The statistics provide insights into the central tendency, dispersion, and variability of the study variables.

Table 1: Descriptive Statistics

stats	Investment in	
	Stock returns	government securities
N	50	50
min	-0.4625	0.213333
max	44372.53	0.5
mean	3886.016	0.387149
sd	9810.905	0.063251
C.V	2.524669	0.163377

Stock returns exhibit substantial variability, with values ranging from a minimum of -0.4625 to a maximum of $44,372.53$. The mean stock return of $3,886.016$ indicates relatively high average performance over the study period; however, the large standard deviation ($9,810.905$) and a high coefficient of variation (2.5247) suggest considerable volatility in returns among the firms. This implies that while some firms recorded exceptionally high returns, others experienced losses or relatively low performance, reflecting the risky nature of stock investments. Investment in government securities records a mean of 0.3871 , with values ranging between 0.2133 and 0.5000 . The low standard deviation (0.0633) and the smallest coefficient of variation (0.1634) among all variables imply that government securities are the most stable and consistently held investment instrument by the firms, reflecting their low-risk nature.

Trend Analysis

This section presents the trend analysis of the study variables over the period under review (2016-2025) for investment firms listed at the Nairobi Securities Exchange. The analysis illustrates the movement and patterns in investment portfolio components and firm performance over time.

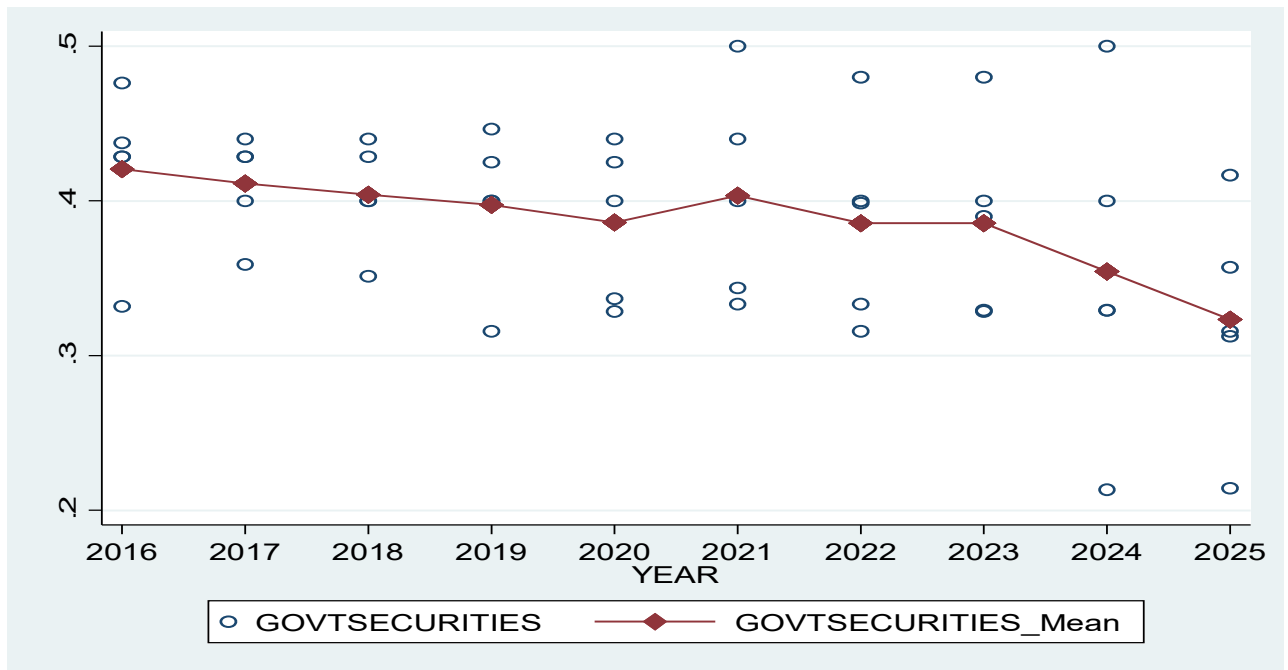


Figure 2: Investment in government securities

Figure 2 presents the trend of investment in government securities among firms listed at the Nairobi Securities Exchange over the period 2016–2025. The results indicate a generally stable but gradually declining trend from 2016 to 2020, followed by a slight increase in 2021. However, from 2022 onwards, investment in government securities shows a consistent downward trend, reaching its lowest level in 2025. This suggests a possible shift by firms away from government securities toward alternative investment options, likely influenced by changing interest rates, inflation expectations, and the pursuit of higher returns. Overall, the trend reflects the balancing role of government securities as low-risk assets within diversified investment portfolios.

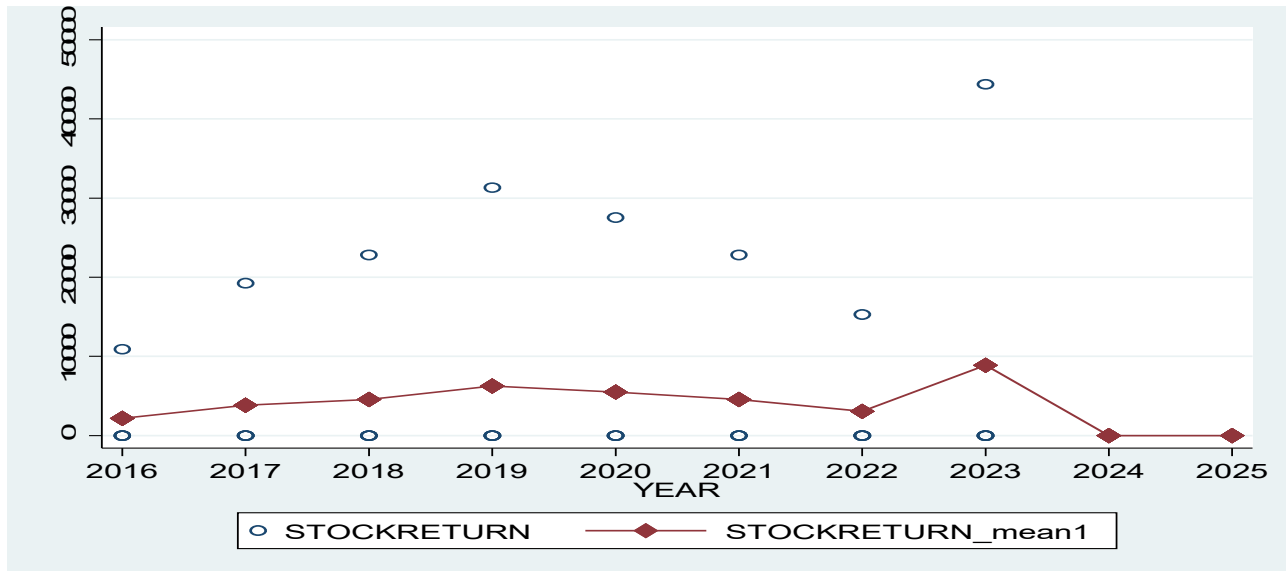


Figure 3: Stock returns

Figure 3 presents the trend of stock returns for firms listed at the Nairobi Securities Exchange over the period 2016–2025. The results indicate that stock returns exhibited significant fluctuations throughout the study period. There was a steady increase from 2016 to 2019, followed by a gradual decline between 2020 and 2022. A sharp increase is observed in 2023, representing the highest average stock return, after which a drastic decline occurs in 2024 and remains low in 2025. Overall, the trend reflects high volatility in firm performance, likely influenced by changing market conditions, economic uncertainties, and shifts in investment strategies among firms.

Inferential Statistics

Inferential statistics were employed to examine the effect of investment in government securities on stock return of investment firms listed at Nairobi Securities Exchange, Kenya. Pearson correlation analysis was used to determine the strength and direction of the relationship between investment in government securities and stock return. Linear regression analysis was applied to assess the effect of investment in government securities on stock return of investment firms listed at Nairobi Securities Exchange, Kenya.

Correlation Analysis

To examine the effect of investment in government securities on stock return of investment firms listed at Nairobi Securities Exchange, Kenya, a Pearson correlation analysis was conducted. The findings, summarized in Table 2, indicate the strength and direction of the relationship between investment in government securities and stock return, thereby providing preliminary evidence on whether investment in government securities significantly influences stock return among the sampled investment firms.

Table 2: Pearson Correlation Analysis

	Stock returns	Investment in govt securities
	Pearson	
	Correlatio	
	n	0.3575
	Sig. (2-	
Investment in govt	tailed)	0.0136
securities	N	50

Investment in government securities exhibits a positive and significant relationship with stock returns ($r = 0.3575$, $p < 0.05$), indicating their role in enhancing portfolio stability and performance. The findings revealed a positive and significant relationship between investment in government securities and stock returns, indicating that increased allocation to government securities enhances firm performance. This is consistent with Jepkemoi and Ngahu (2023), who found that investment in government securities significantly improves financial performance among insurance firms. Similarly, Ndungu and Bosire (2020) and Majengo, Otinga, and Miroga (2023) reported a positive association between government securities and firm performance. However, the findings differ from Kimorop (2025), who reported a negative effect of bond investments on profitability, and Teixeira et al. (2021), who found mixed results depending on the context, suggesting that the impact of government securities may vary across sectors and economic conditions.

Panel Regression Analysis

Panel regression analysis was conducted to assess the effect of investment in government securities on the stock return of investment firms listed at the Nairobi Securities Exchange, Kenya. A fixed effects model was adopted to account for firm-specific characteristics that may influence stock return, and the results are presented in Table 3. The Hausman test result ($\chi^2 = 34.48$, $p = 0.0000$) indicates that the null hypothesis is rejected, implying that the random effects model is inappropriate. Therefore, the fixed effects model is preferred since there is a significant difference between the estimators, suggesting correlation between the explanatory variables and the unobserved firm-specific effects.

Table 3: Regression Fixed Effect

The study sought to examine the effect of investment in government securities on stock returns of investment firms listed at the Nairobi Securities Exchange, Kenya. A fixed effects model was employed, and the results are presented in Table 4.11.

Table 4. 2: Regression Fixed Effect of Investment in government securities on stock returns

Fixed-effects (within) regression	Number of obs	=	50		
Group variable: FirmID	Number of groups	=	5		
R-sq:	Obs per group:				
within= 0.7004	Min	=	10		
between = 0.0410	Avg	=	10		
overall = 0.1082	Max	=	10		
	F(1,44)	=	102.84		
corr(u_i, Xb)= -0.3009	Prob > F	=	0.000		
Stock returns	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]
Investment in				0.000	
Govt Securities	14.28381	1.408517	10.14		11.44513 17.12249
_cons	14.51643	1.373051	10.57	0.000	11.74923 17.28364

The regression results indicate that investment in government securities has a positive and statistically significant effect on stock returns. The within R-squared of 0.7004 implies that approximately 70.04% of the variation in stock returns within firms over time is explained by investment in government securities, indicating strong explanatory power. The between R-squared of 0.0410 suggests moderate variation across firms, reflecting differences in how firms allocate funds to government securities. The F-statistic of 102.84 ($p = 0.0000$) confirms that the overall regression model is highly statistically significant, indicating that investment in government securities is a key determinant of stock returns. The regression model is as shown below:

$$Y = 14.51643 + 14.28381X_3$$

The coefficient of 14.28381, with a standard error of 1.408517 and a t-value of 10.14, indicates a strong positive and statistically significant relationship ($p < 0.01$). This implies that a one-unit increase in investment in government securities leads to a substantial increase in stock returns by 14.28381 units, holding other factors constant. The large coefficient suggests that government securities play a significant role in influencing firm performance. These findings suggest that firms investing more in government securities tend to achieve higher stock returns, likely due to the relatively low-risk and stable income associated with treasury bills and bonds. Government securities provide predictable returns and enhance portfolio stability, which contributes positively to firm performance. However, the magnitude of the coefficient may also reflect scaling differences in the data, and therefore should be interpreted with caution. Overall, the results support the role of government securities as an important component of a diversified investment portfolio, consistent with portfolio theory which emphasizes the inclusion of low-risk assets to stabilize returns.

Discussions of the Findings

The descriptive statistics revealed that stock returns among investment firms listed at the Nairobi Securities Exchange exhibited substantial variability over the study period. The high standard deviation and coefficient of variation indicate that stock returns fluctuated significantly across firms and over time. This suggests that stock performance within the investment sector is highly sensitive to market conditions, economic fluctuations, and investment decisions. Some firms recorded exceptionally high returns, while others experienced losses, reflecting the volatile nature of equity investments in emerging financial markets such as Kenya. In contrast, investment in government securities exhibited relatively low variability, as evidenced by the low standard deviation and coefficient of variation. This implies that government securities were consistently held by firms and remained one of the most stable investment instruments throughout the study period. The stability associated with treasury bills and treasury bonds may be attributed to their low-risk nature and guaranteed returns, making them attractive investment options for firms seeking portfolio stability and income predictability. The trend analysis further demonstrated that investment in government securities generally declined over the study period, particularly from 2022 to 2025. This declining trend may suggest that firms gradually shifted their investments toward alternative assets offering potentially higher returns due to changing macroeconomic conditions, inflation expectations, and interest rate dynamics. Nevertheless, the continued allocation of funds to government securities indicates that firms still considered them important instruments for managing risk and maintaining portfolio balance. The trend in stock returns showed considerable fluctuations over the same period. Stock returns increased steadily between 2016 and 2019 before declining between 2020 and 2022, likely reflecting economic disruptions and market uncertainties. A sharp increase in 2023 was followed by a drastic decline in 2024 and 2025. These fluctuations suggest that stock returns among listed investment firms are highly influenced by economic cycles, investor sentiment, and shifts in investment strategies. The volatility further highlights the importance of stable investment instruments such as government securities in cushioning firms against market instability.

The correlation analysis revealed a positive and statistically significant relationship between investment in government securities and stock returns. This finding implies that firms allocating a larger proportion of their investment portfolios to government securities tend to experience higher stock returns. The positive relationship suggests that government securities contribute positively to firm performance through stable and predictable returns generated from treasury bills and treasury bonds. The findings support Modern Portfolio Theory, which emphasizes the importance of combining low-risk and high-risk assets to improve portfolio efficiency and stabilize returns. Government securities, being low-risk investments, help firms reduce portfolio volatility while ensuring steady income flows. Consequently, firms that invest in government securities are better positioned to maintain financial stability and improve shareholder confidence, which positively influences stock returns. The findings are consistent with previous empirical studies such as Jepkemoi and Ngahu (2023), who found that investment in government securities significantly improves financial performance among insurance firms in Kenya. Similarly, Ndungu and Bosire (2020) and Majengo, Otinga, and

Miroga (2023) reported a positive relationship between government securities and firm performance. However, the findings differ from Kimorop (2025), who found that bond investments negatively affected profitability, suggesting that the influence of government securities may vary depending on market conditions and investment strategies adopted by firms.

The regression analysis established that investment in government securities has a positive and statistically significant effect on stock returns among investment firms listed at the Nairobi Securities Exchange. The positive regression coefficient indicates that an increase in investment in government securities significantly increases stock returns, holding other factors constant. This demonstrates that government securities are an important determinant of firm performance and contribute significantly to enhancing shareholder value. The findings imply that firms investing more in government securities benefit from stable income streams and reduced exposure to market risk. Treasury bills and treasury bonds provide predictable returns and preserve capital, enabling firms to stabilize earnings and improve financial performance. Since government securities are generally considered risk-free investments, they enhance portfolio stability and reduce the adverse effects of stock market volatility on firm returns.

The high within R-squared value further suggests that investment in government securities explains a substantial proportion of variations in stock returns within firms over time. This confirms that government securities play a major role in influencing firm performance. The statistically significant F-statistic also demonstrates that the regression model is appropriate and that investment in government securities is a key predictor of stock returns. The findings support Q Theory of Investment, which argues that firms allocate investments toward assets that maximize value and returns. Government securities provide firms with secure investment opportunities that generate stable returns while minimizing financial risk. Consequently, firms allocating more resources to government securities are able to achieve more sustainable financial performance and improved stock returns. The findings are consistent with Babarinde et al. (2025), Nzau, Kung'u, and Onyuma (2019), and Majale and Olweny (2024), who found that investment securities and bond-related investments significantly improve financial performance. However, some studies such as Babarinde et al. (2025) reported insignificant long-run effects, indicating that the impact of government securities may differ depending on economic conditions, inflation levels, and investment horizons. Nonetheless, the current findings strongly confirm that government securities are a strategic investment instrument that significantly enhances stock returns among listed investment firms in Kenya.

Conclusion and Recommendations

The study concluded that investment in government securities has a positive and statistically significant effect on stock returns. Government securities provide stable and predictable income, contributing to improved financial performance and reduced investment risk. Their low-risk nature makes them an essential component of a diversified investment portfolio, particularly in mitigating the effects of market volatility. This suggests that the composition between short-term and long-term government securities is important in determining firm performance. Treasury bills enhance liquidity and short-term income, while treasury bonds

provide long-term stability and consistent returns. Firms that maintain an optimal balance between treasury bills and treasury bonds are better positioned to enhance stock returns by achieving both liquidity and income stability.

The study recommended that investment firms should optimize the ratio between treasury bills and treasury bonds to improve stock returns. A balanced approach should be adopted where treasury bills are used to enhance liquidity and short-term returns, while treasury bonds provide long-term stability and consistent income. Firms should adjust this ratio in response to changes in interest rates, inflation, and macroeconomic conditions to maximize portfolio performance. Additionally, investment decisions should consider interest rate movements and inflation trends to maximize returns from government securities while maintaining portfolio efficiency.

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