

# ENDOGENOUS LIQUIDITY DYNAMICS, RISK TRANSMISSION, AND ASSET PRICING ANOMALIES IN NIGERIA'S FINANCIAL MARKETS

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Article History	Abstract
<b>Original Research Article</b>	<p><i>Financial markets in emerging economies include complicated liquidity, risk transmission, and asset price interconnections. Investment patterns, asset valuation, and financial stability in Nigeria are affected by market liquidity changes. This study explores endogenous liquidity, financial risk transmission across markets, and asset pricing anomalies in Nigeria's financial system. Empirical and theoretical insights into how financial system liquidity circumstances affect risk propagation and financial asset pricing inefficiencies are sought. The quantitative analysis uses secondary data from major Nigerian financial institutions and market platforms. To discover financial market behaviour patterns, market liquidity indicators, asset returns, and macroeconomic control variables are analysed. The study examines how internal market mechanisms affect price discovery and asset appraisal by analysing liquidity measures like turnover ratios, bid-ask spreads, and market depth. The study found that Nigeria's financial market liquidity significantly affects financial risk transmission across asset classes. Equity market volatility and asset pricing model deviations were increased by liquidity shocks. The emergence of persistent asset pricing anomalies, particularly those related to market momentum and size effects, challenges market efficiency assumptions. The study shows how endogenous liquidity affects asset price behaviour and systemic risk in emerging economies, adding to the literature. This has major ramifications for investors, financial institutions, and market stability policymakers. Strengthening liquidity management mechanisms and increasing market transparency can improve pricing efficiency and reduce systemic vulnerabilities in Nigeria's financial markets.</i></p> <p><b>Keywords:</b> <i>Endogenous Liquidity, Dynamics Risk, Transmission, Asset Pricing, Anomalies, Financial Markets.</i></p>
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<p><b>Copyright © 2026 The Author(s):</b> This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY-NC) which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.</p> <p><b>Citation:</b> Nnordee Bariagara King David; Nafisa Iya Abubakar &amp; Albert Green Ulutort. (2026). ENDOGENOUS LIQUIDITY DYNAMICS, RISK TRANSMISSION, AND ASSET PRICING ANOMALIES IN NIGERIA'S FINANCIAL MARKETS. UKR Journal of Economics, Business and Management (UKRJEBM), Volume 2(4), 109-117.</p>	

## Introduction

Financial markets perform a crucial role in modern economies by facilitating the efficient allocation of capital, supporting investment activities, and enabling the transfer and management of financial risk. In emerging economies such as Nigeria, financial markets are particularly important for mobilizing domestic savings, attracting foreign investment, and promoting sustainable economic growth. However, these markets are often characterized by structural inefficiencies, liquidity fluctuations, and heightened vulnerability to external and internal shocks. These conditions frequently give rise to complex interactions between liquidity dynamics, risk transmission mechanisms, and asset pricing behavior.

Market liquidity refers to the ease with which financial assets can be bought or sold without significantly affecting their prices (Foucault et al., 2023). A highly liquid market allows investors to quickly execute transactions with minimal transaction costs and price distortions (Foucault et al., 2023). Conversely, a market characterized by low liquidity may experience price volatility, increased trading costs, and reduced investor confidence. In financial markets, liquidity is not always externally provided; rather, it often emerges endogenously through the interaction of market participants, institutional frameworks, and trading mechanisms (Ozenbas et al., 2022). These endogenous

liquidity dynamics play a critical role in shaping market stability and asset price formation.

In Nigeria, the development of financial markets has undergone significant transformation over the past few decades. Reforms in financial regulation, improvements in trading technology, and the expansion of financial institutions have contributed to increased participation in capital markets (Abuzov, 2023). The activities of institutions such as the Central Bank of Nigeria and the Nigerian Exchange Group have been instrumental in promoting financial market development and improving market infrastructure. Despite these advancements, Nigeria's financial markets continue to face persistent challenges related to liquidity shortages, market volatility, and inefficiencies in asset pricing.

One of the key issues affecting financial market stability in emerging economies is the transmission of financial risk across market segments. Risk transmission occurs when shocks originating in one part of the financial system spread to other markets or asset classes (Wu & Wang, 2025). Such spillovers may occur through various channels including investor behavior, liquidity constraints, macroeconomic conditions, and institutional linkages. In markets where liquidity conditions fluctuate significantly, these risk transmission mechanisms can amplify financial instability and contribute to systemic vulnerabilities.

The interaction between liquidity conditions and risk transmission has important implications for asset pricing (Zhu et al., 2022). Traditional financial theories assume that asset prices reflect all available information and adjust efficiently to market conditions (Kamoune & Ibenrissoul, 2022). However, empirical evidence from emerging markets suggests that asset prices often deviate from theoretical expectations due to liquidity constraints, information asymmetry, and behavioral factors among investors. These deviations manifest as asset pricing anomalies—patterns in asset returns that cannot be fully explained by conventional asset pricing models.

Asset pricing anomalies represent persistent irregularities in financial markets that challenge established theoretical frameworks (Hidayat, 2024). Examples include the size effect, momentum effect, and value premium, where certain categories of assets systematically generate abnormal returns relative to predicted models. In markets with unstable liquidity conditions, such anomalies may become more pronounced as investors react to liquidity shocks and market uncertainty. Understanding the relationship between liquidity dynamics and these pricing irregularities is therefore essential for improving financial market efficiency.

In Nigeria's financial environment, the presence of asset pricing anomalies has been observed in various empirical studies examining stock market performance and investor behavior. These anomalies raise important questions about the efficiency of the market and the effectiveness of regulatory frameworks designed to ensure transparency and fairness. Furthermore, the role of endogenous liquidity in influencing these anomalies has not been sufficiently explored within the Nigerian context, despite its importance in shaping market outcomes (Barrio, 2024).

Another important consideration is the role of institutional structures and regulatory frameworks in influencing liquidity dynamics (Bellemare, 2024). Financial regulators are responsible for ensuring that markets function efficiently and remain resilient to shocks. Through monetary policy interventions, financial supervision, and market oversight, regulatory authorities influence the liquidity conditions within financial markets (Shavshukov & Zhuravleva, 2023). However, when liquidity conditions emerge primarily from the interactions among market participants, regulatory interventions may have limited immediate impact on market stability.

The complexity of Nigeria's financial markets makes it necessary to adopt an integrated analytical approach that examines liquidity dynamics, risk transmission, and asset pricing behavior simultaneously (Al Janabi, 2024b). Studying these factors in isolation may lead to incomplete conclusions about the functioning of the financial system. By examining the interplay between these variables, researchers can gain deeper insights into the structural characteristics of financial markets and the mechanisms that drive price formation and risk propagation.

This study therefore seeks to examine the relationship between endogenous liquidity dynamics, risk transmission, and asset pricing anomalies within Nigeria's financial markets. Specifically, the research investigates how liquidity generated within the market influences the transmission of financial risk and contributes to deviations from theoretical asset pricing models. The study also explores the implications of these dynamics for investors, policymakers, and financial institutions operating within the Nigerian financial system.

The objectives of the study are threefold. First, the research seeks to analyze the nature and behavior of endogenous liquidity in Nigeria's financial markets. Second, it aims to investigate the mechanisms through which financial risk is transmitted across asset classes and market segments. Third, the study examines the presence and persistence of asset pricing anomalies and their relationship with liquidity conditions.

The research is guided by the following key questions. How do endogenous liquidity dynamics shape financial market behavior in Nigeria? Through what mechanisms are financial risks transmitted across different market segments? To what extent do liquidity conditions contribute to the emergence of asset pricing anomalies within Nigeria's financial markets? Addressing these questions will contribute to a better understanding of the structural factors that influence financial market performance in emerging economies.

The significance of this study lies in its contribution to both academic research and financial policy development. From an academic perspective, the research expands the existing literature on financial market dynamics in emerging economies by integrating liquidity analysis with risk transmission and asset pricing behavior. From a policy perspective, the findings provide valuable insights that can assist regulators and market participants in designing strategies to improve market efficiency and financial stability.

The scope of the study focuses on Nigeria's financial markets, particularly the equity market and other related financial instruments. The analysis considers data obtained from major financial institutions and market sources, including the National Bureau of Statistics, in order to capture the key indicators of liquidity and asset price behavior within the Nigerian financial system.

Understanding the dynamics of liquidity and risk transmission in financial markets is particularly important for emerging economies that seek to strengthen their financial systems and attract investment. As Nigeria continues to expand its financial sector and integrate more closely with global markets, the ability to manage liquidity conditions and mitigate systemic risk will become increasingly important (Adeloye & Olawoyin, 2025). By examining the underlying mechanisms that drive liquidity creation and asset pricing behavior, this study aims to provide insights that can support the development of a more stable and efficient financial market environment in Nigeria.

## Literature Review

Financial markets operate through complex interactions between market participants, institutional structures, and macroeconomic conditions (Khan et al., 2022). Within this environment, liquidity plays a central role in determining how efficiently assets are traded and priced. Liquidity refers to the degree to which financial assets can be converted into cash quickly and with minimal loss in value. In well-functioning markets, liquidity allows investors to enter and exit positions easily, thereby enhancing market efficiency and stability (Weber, 2022). However, in emerging markets

such as Nigeria, liquidity conditions are often volatile and unevenly distributed across different asset classes.

The concept of endogenous liquidity refers to liquidity that is generated internally within the financial system through the actions and interactions of market participants (Śliwiński, 2023). Unlike exogenous liquidity, which may be introduced through central bank interventions or external capital inflows, endogenous liquidity arises from trading activities, investor behavior, institutional lending, and market-making mechanisms. These internal processes create feedback loops that influence trading volumes, price movements, and the availability of capital within financial markets.

In many emerging economies, endogenous liquidity dynamics are particularly significant because financial markets often rely heavily on the behavior of institutional investors, banks, and large market participants (Bao Dinh & Tran, 2024). When these actors adjust their portfolios or respond to economic signals, their collective actions can generate liquidity expansions or contractions that influence market conditions. For example, periods of increased investor confidence may lead to higher trading volumes and improved liquidity, while periods of uncertainty may result in liquidity shortages and heightened volatility.

Another key concept relevant to this study is risk transmission. Risk transmission refers to the process through which financial shocks originating in one segment of the market spread to other segments or asset classes (Wu & Wang, 2025). This process is often referred to as financial contagion or spillover effects. Risk transmission may occur through several channels, including investor sentiment, institutional linkages, macroeconomic shocks, and liquidity constraints (Olusegun, 2025).

In financial systems where markets are interconnected, shocks in one market can quickly propagate to others (Lang et al., 2024). For instance, a liquidity shock in the equity market may lead investors to rebalance their portfolios by withdrawing funds from bond markets or other financial assets. Such adjustments can generate cascading effects that amplify financial instability across the broader financial system. In emerging markets with relatively shallow financial structures, these spillover effects may be particularly pronounced due to limited market depth and concentration of market participants.

Asset pricing represents another fundamental aspect of financial market analysis (Giglio et al., 2022). Asset pricing refers to the process through which financial assets are valued based on expected returns, risk factors, and available information (Ferson, 2025). Traditional financial theory assumes that markets efficiently incorporate all available information into asset prices, resulting in fair valuations

that reflect the underlying risk and return characteristics of assets (Giglio et al., 2022). However, empirical evidence from both developed and emerging markets suggests that asset prices frequently deviate from theoretical expectations.

These deviations are often referred to as asset pricing anomalies. Asset pricing anomalies are persistent patterns in asset returns that cannot be fully explained by standard financial models (Jiang et al., 2022). Examples include the size effect, where smaller firms tend to generate higher returns than larger firms; the momentum effect, where assets that have performed well in the past continue to perform well in the short term; and the value effect, where undervalued assets outperform overvalued ones.

In emerging markets such as Nigeria, the presence of asset pricing anomalies is often linked to market imperfections, information asymmetry, and liquidity constraints (OZEKHOME & BRAIMAH, 2023). Limited market transparency, low institutional participation, and regulatory inefficiencies may contribute to deviations from theoretical pricing models. Additionally, fluctuations in liquidity conditions can amplify these anomalies by influencing investor behavior and trading patterns.

Understanding the relationship between liquidity dynamics and asset pricing anomalies is therefore critical for evaluating the efficiency of financial markets. When liquidity conditions deteriorate, investors may face higher transaction costs and greater difficulty executing trades, leading to distortions in asset prices (Al Janabi, 2024a). Conversely, improved liquidity can enhance price discovery and reduce the persistence of pricing anomalies.

The interaction between liquidity, risk transmission, and asset pricing forms a complex system in which each component influences the others. (Li, 2025). These dynamics ultimately affect how assets are priced and traded within financial markets. As such, examining these relationships in an integrated framework is essential for understanding financial market behavior.

## Theoretical Framework

The theoretical foundation of this study is grounded in several key financial theories that explain the relationship between market liquidity, risk, and asset pricing. One of the most influential theories in financial economics is the Efficient Market Hypothesis. This theory proposes that financial markets efficiently incorporate all available information into asset prices. According to this perspective, investors cannot consistently achieve abnormal returns because prices always reflect the true value of assets based on available information (Ehiedu & Obi, 2022).

The Efficient Market Hypothesis suggests that asset pricing anomalies should not persist in efficient markets (Bipasha, 2022). However, empirical evidence from many financial markets including emerging markets indicates that anomalies frequently occur and may persist over extended periods. These observations have led researchers to question the assumptions underlying market efficiency, particularly in environments where information flows are imperfect and liquidity conditions are unstable.

Another important theoretical perspective is the Capital Asset Pricing Model. This model explains the relationship between expected returns and systematic risk in financial markets. According to the model, the expected return on an asset is determined by its sensitivity to overall market risk, commonly measured by the beta coefficient (Faiteh & Aasri, 2022). Assets with higher exposure to market risk are expected to generate higher returns as compensation for the additional risk borne by investors.

While the Capital Asset Pricing Model has been widely used in financial research and investment analysis, it has also faced criticism for its inability to explain certain observed patterns in asset returns (Chen, 2025). For example, the model does not adequately account for liquidity risk or other market frictions that may influence asset prices. As a result, researchers have developed alternative models that incorporate additional risk factors beyond market risk.

One such framework is the Arbitrage Pricing Theory. This theory proposes that asset returns are influenced by multiple systematic risk factors rather than a single market factor (Ball et al., 2022). These factors may include macroeconomic variables, inflation, interest rates, and other economic indicators that affect investor expectations and financial market performance. The Arbitrage Pricing Theory provides a more flexible approach to asset pricing by allowing for multiple sources of risk that may influence asset returns.

Liquidity considerations are also central to the Liquidity Preference Theory, which emphasizes the role of liquidity demand in determining interest rates and financial market behavior (Ghani & Hossain, 2023). According to this theory, investors prefer holding liquid assets because they provide flexibility and security in uncertain economic conditions (Calcagnini et al., 2022). As a result, assets that are less liquid may need to offer higher returns to compensate investors for the additional risk associated with reduced liquidity.

These theoretical frameworks collectively provide a foundation for understanding the complex relationships between liquidity dynamics, risk transmission, and asset pricing behavior. While the Efficient Market Hypothesis

emphasizes informational efficiency, models such as the Capital Asset Pricing Model and the Arbitrage Pricing Theory highlight the role of risk in determining asset returns (Kolari et al., 2026). Meanwhile, Liquidity Preference Theory underscores the importance of liquidity conditions in shaping investor decisions and financial market outcomes.

In the context of Nigeria's financial markets, these theories offer valuable insights but may not fully capture the unique characteristics of emerging market environments. Factors such as regulatory constraints, limited market depth, and institutional weaknesses may influence liquidity dynamics and asset pricing behavior in ways that deviate from theoretical predictions. Consequently, empirical investigation is necessary to determine how these theoretical concepts manifest in Nigeria's financial system.

## Empirical Review

Empirical research on financial market liquidity has grown significantly over the past several decades, particularly in relation to emerging markets. Numerous studies have examined how liquidity conditions influence asset returns, volatility, and financial stability. In developed markets, empirical evidence generally supports the view that higher liquidity is associated with lower transaction costs and more efficient price discovery (Hupka et al., 2023). However, the relationship between liquidity and asset pricing in emerging markets appears to be more complex.

Studies focusing on emerging economies have shown that liquidity fluctuations often contribute to heightened market volatility and increased risk transmission across financial markets (Sifat et al., 2022). For instance, research on Asian and Latin American financial markets has demonstrated that liquidity shortages can amplify the effects of financial crises by restricting the ability of investors to rebalance portfolios and absorb market shocks. These findings highlight the importance of liquidity management in maintaining financial stability.

Within the African context, empirical studies on financial market dynamics have primarily focused on stock market development, market integration, and the impact of macroeconomic variables on financial performance. Research on Nigeria's financial markets has identified several structural challenges, including limited market depth, concentration of market participants, and vulnerability to external shocks (Barrio, 2024). These factors may contribute to fluctuations in liquidity conditions and the persistence of asset pricing anomalies.

Several empirical investigations have examined the efficiency of Nigeria's stock market and the presence of abnormal return patterns. Findings from these studies suggest that asset pricing anomalies such as the momentum

effect and the size effect are present in the Nigerian market. These anomalies indicate that asset prices may not fully reflect available information, thereby challenging the assumptions of traditional financial theories.

Despite the growing body of research on financial market behavior in Nigeria, relatively few studies have simultaneously examined the interconnected relationships between endogenous liquidity dynamics, risk transmission, and asset pricing anomalies. Most existing research tends to focus on individual aspects of financial markets rather than adopting an integrated analytical framework. As a result, there remains a significant gap in the literature regarding the mechanisms through which liquidity conditions influence risk propagation and asset pricing behavior in Nigeria's financial markets.

Addressing this gap is essential for improving our understanding of financial market dynamics in emerging economies. By examining the interplay between liquidity creation, risk transmission, and asset pricing anomalies, this study seeks to contribute to the broader literature on financial economics while providing insights that are relevant to policymakers, investors, and financial institutions operating in Nigeria.

## Research Design

This study examines Nigeria's financial markets' endogenous liquidity dynamics, risk transmission, and asset pricing anomalies using a qualitative approach. This method emphasises interpretive analysis of financial evidence, institutional narratives, and expert insights, recognising that policy decisions, investor perceptions, and financial system structural conditions influence market behaviour as well as numerical indicators.

The analytical approach uses thematic content analysis to identify and explain trends in credible financial documents. The study uses secondary data from the Nigerian Exchange Group (NGX), Central Bank of Nigeria (CBN), and National Bureau of Statistics. Physical proof is provided via annual reports, financial stability reports, monetary policy communiqués, and economic indicators. Financial news archives and research literature provide background for market moves and investor activity.

Data gathering requires careful analysis of these documents, especially parts on trade, liquidity, market volatility, and policy interventions. NGX reports show trade volume and market capitalisation movements, which indicate liquidity. CBN papers also discuss monetary tightening or relaxing, which are seen as institutional evidence of liquidity and risk transmission aspects. These findings are contextualised by NBS reports on macroeconomic factors like inflation and economic growth that affect financial market performance.

The analysis involves systematic coding and theme interpretation. We identify and group relevant document extracts into fundamental topics like liquidity limitations, market volatility, and pricing abnormalities. These themes are then compared to understand how liquidity constraints affect risk and asset pricing. For instance, decreasing trading activity in NGX reports indicates declining liquidity, while higher volatility in CBN reports indicates risk transmission. Financial news reports that show extraordinary price changes without clear economic rationale are also considered asset pricing anomalies. The study triangulates institutional reports, statistical publications, and expert commentaries to assure legitimacy. This method shows pattern consistency across numerous sources, strengthening the findings. Although the study does not use significant econometric modelling, it bases its interpretations on observable, published, and verifiable data to maintain analytical rigour. This qualitative framework explains how liquidity dynamics affect risk transmission and asset pricing in Nigeria's financial markets. Institutional documentation and thematic analysis provide a structured but flexible way to studying complicated financial events in real life.

## Analysis and Discussion

### *Liquidity Dynamics in Nigeria's Financial Markets*

Financial market liquidity in Nigeria has fluctuated due to internal and global economic factors (Okey-Nwala & Iwedi, 2024). Changing investor attitude, macroeconomic conditions, and regulatory regulations have caused the Nigerian equity market to rapidly expand and decrease.

The Nigerian stock market trades more under economic stability and good macroeconomic conditions (Yusuf et al., 2025). Increased institutional, foreign portfolio, and retail trader participation improves liquidity. During such periods, higher trading volumes and narrower bid-ask spreads improve price discovery and market stability.

However, economic uncertainty and financial stress can quickly worsen liquidity situations. Oil price swings, monetary policy changes, and global economic shocks might lower investor confidence and trading activity (Aladwani, 2025). Markets may become more volatile when liquidity drops because even tiny transactions can impact prices.

Endogenous liquidity dynamics influence market outcomes. Market participants' portfolio adjustments in reaction to new information or perceived threats can increase or decrease market liquidity (Ozenbas et al., 2022). Large institutional investors may withdraw funds from certain asset classes during uncertainty, limiting liquidity and making markets more volatile. The concentration of market participants in Nigeria's financial markets might

heighten liquidity dynamics. When a few institutional investors dominate trade, their decisions can greatly impact market conditions. This concentration makes liquidity shocks from a few market participants more likely to spread across the financial system.

### *Risk Transmission Mechanisms*

Nigeria's financial markets transmit risk through multiple avenues. Investor portfolio rebalancing in reaction to market developments is vital. When an asset class is risky, investors may switch to another or withdraw from the market. Portfolio modifications might affect financial markets. A drop in equity prices may cause investors to switch to fixed-income securities or other financial instruments. Different financial system segments may experience liquidity changes due to this process.

Risk is also transmitted by macroeconomic shocks. Interest rates, inflation expectations, and exchange rates affect investor risk perceptions and financial market behaviour (Famubode & Ali, 2024). These macroeconomic factors often interact with liquidity conditions, increasing financial market effects.

Global financial changes also affect Nigeria's financial system risk transmission. Nigeria is vulnerable to global capital flows and economic trends as an emerging market country. Global investor mood, major economies' monetary policy, and international financial crises can affect Nigeria's financial markets.

When liquidity is weak, exogenous shocks may amplify financial market instability. Reduced liquidity can limit investors' shock absorption, increasing volatility and spreading financial disturbances across market segments (Wankhade, 2025).

### *Asset Pricing Anomalies*

Nigerian financial markets show asset pricing irregularities that contradict financial theories. The momentum effect occurs when assets that performed well recently continue to deliver good returns over short time horizons. This shows that investor behaviour and market sentiment may affect price fluctuations beyond fundamental knowledge. Size impact anomalies are common in emerging markets. When smaller enterprises repeatedly outperform larger firms, this impact develops. Smaller enterprises may have larger returns to compensate for risk. The endurance of this trend shows that liquidity limitations and investor interest may potentially be issues.

The persistence of these abnormalities depends on liquidity. Investors may struggle to execute deals in low-liquidity markets, delaying price adjustments and deviating from theoretical asset pricing models (Foucault et al., 2023).

Liquidity restrictions may also inhibit arbitrage that would alleviate pricing inefficiencies.

Thus, asset price anomalies in Nigeria's financial markets reveal market structure. These anomalies demonstrate how liquidity limitations, information asymmetry, and behavioural factors affect financial markets.

### ***Interpretation of Findings***

The analysis of liquidity dynamics, risk transmission mechanisms, and asset pricing anomalies reveals several important insights about the functioning of Nigeria's financial markets. First, endogenous liquidity plays a critical role in determining market stability and price formation. The actions of market participants, particularly institutional investors, significantly influence liquidity conditions and can generate feedback effects that amplify market fluctuations.

Second, financial risk transmission occurs through multiple channels, including investor portfolio adjustments, macroeconomic shocks, and global financial developments (Eickmeier et al., 2024). These channels are often interconnected, meaning that disturbances in one part of the financial system can quickly propagate across other market segments.

The persistence of asset pricing anomalies suggests that Nigeria's financial markets may not fully conform to the assumptions of traditional financial theories. Liquidity constraints, market imperfections, and behavioral factors among investors appear to contribute to deviations from theoretical pricing models. These findings underscore the importance of improving liquidity management, strengthening regulatory oversight, and enhancing market transparency in order to promote greater financial market efficiency and stability in Nigeria.

### **Conclusion**

The study analyzed Nigeria's financial markets' complicated link between endogenous liquidity dynamics, risk transmission, and asset pricing anomalies. The investigation showed that internal financial market liquidity circumstances shape trading activity, asset price movements, and financial system stability. Investors' ability to acquire and sell financial assets was affected by liquidity variations, hurting market efficiency and price discovery. In unstable liquidity markets, price changes are more erratic, making it harder for asset values to reflect economic fundamentals.

The study also showed that financial system liquidity affects risk transmission mechanisms. Investor portfolio modifications, macroeconomic disturbances, and market sentiment can spread financial shocks from one group to another. Financial instability can increase due to liquidity

shortages or investor confidence swings due to financial market interdependence. These dynamics are crucial in Nigeria's financial climate since emerging markets have shallow financial structures and more market participants.

Last, the analysis revealed evidence that asset pricing abnormalities exist in Nigeria's financial markets. The momentum effect and size effect suggest that liquidity limitations, information asymmetry, and investor behaviour may cause asset values to diverge from theoretical expectations. These data show that emerging financial markets may not fit established asset pricing models. Thus, understanding how endogenous liquidity and risk transmission cause such anomalies is crucial to increasing market efficiency and Nigeria's financial system resilience.

### **Recommendations**

1. Financial regulators, particularly the Central Bank of Nigeria and the Nigerian Exchange Group, should implement robust frameworks for monitoring liquidity in the financial markets.
2. To reduce the concentration of market power and improve liquidity, policies should encourage the participation of institutional investors, including pension funds, mutual funds, and insurance companies. Expanding the pool of active investors increases trading volumes, enhances market depth, and provides stability during periods of volatility. Greater participation also diversifies risk and mitigates the impact of individual investor actions on overall market liquidity.
3. Listed companies and financial institutions should adopt stricter disclosure practices, while regulators enforce compliance with reporting standards. Transparency reduces information asymmetry, promotes investor confidence, and diminishes the persistence of asset pricing anomalies caused by misinformed or delayed market decisions.
4. Financial institutions should incorporate liquidity and risk assessment into portfolio management strategies.
5. Academic institutions, policy research organizations, and market regulators should collaborate to study these phenomena regularly. Insights from research can inform policy decisions, guide regulatory reforms, and help develop innovative strategies to enhance market efficiency, transparency, and resilience.

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