



Research on the relationship between capital markets and the global economic recovery

Xiaolin Gou

Tsinghua University, Haidian District, Beijing, 100084, China

13730877118@139.com

Abstract. The capital market has a crucial role in contemporary finance, which is closely intertwined with a country's economic growth. To utilize the capital market more effectively in fostering economic recovery and development, we must amplify its functions. Several factors, including government policies, central bank monetary policies and international capital flows, have a considerable bearing on the functioning of the stock market. Consequently, these elements directly influence the velocity and caliber of the global economic upturn. A comprehensive account of the correlation between the capital market and worldwide economic growth is still elusive. This paper explores the relationship between the capital market and economic growth, applying relevant theories from development economics and finance to analyze this connection. Understanding how a stable and developed capital market contributes to economic growth is crucial.

Keywords: capital markets; economic development; globalization; economic recovery

1 Introduction

The global economic recovery has been a common focus for governments, academics and market participants. With the ongoing emergence of novel technologies and business models, coupled with the trend of globalisation and digitalisation, capital markets and economic development are intricately intertwined. The capital market is essential in determining the trade and growth patterns of a country, and it has a direct impact on the development of the national economy [1]. This study will explore the correlation between the capital market and economic development, and closely examine the role of the capital market in the national economy. Initiating capital markets should be the primary action towards revitalising the economy [2]. It offers enterprises access to finance whilst also presenting investors with a diversified investment portfolio. The stability and effectiveness of capital markets are pivotal to the sustained growth and stability of the global economy as they bear a direct influence on the efficiency and quality of financing, investments and resource allocation. This paper aims to provide insights into the strong connection between global capital markets and economic recovery. We will analyse the role of capital markets in the economic recovery process, the factors

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that influence it, and how policy and regulation can contribute to the recovery of the global economy.

2 Capital markets and global economic recovery

The capital market is a venue where funds can be raised for medium and long-term purposes [3]. It offers a variety of financial instruments that enable economic entities to aggregate, appraise, and exchange risks. By providing assets with enticing yields, liquidity, and risk profiles, it encourages savings in financial forms, which is a vital need for administrations and other entities that are in search of long-term funding. The capital market encompasses a network of expert financial institutions, along with a range of mechanisms, procedures, and infrastructure, all of which serve to facilitate the linkage between suppliers and users of medium to long-term capital for investment in projects oriented towards economic development [4].

Capital markets are an integral component of the worldwide economic recovery. The operation and effectiveness of capital markets are vital to this recovery since they offer essential backing for corporate finance as well as investor reliability, propelling economic growth. In addition, the capital market is also influenced by the monetary policies of central banks, government policies and international capital movements, which have a direct impact on the pace and stability of the global economic recovery. However, fluctuations and uncertainty in financial markets may also jeopardise economic recuperation, and implementing proficient regulatory and policy measures is imperative in ensuring market steadiness, which in turn bolsters a feasible worldwide economic revival.

3 The role of capital markets in global economic recovery

3.1 Mechanisms and functions of capital markets

As an important part of the economy, the capital market provides important services to various economic entities by fulfilling several functions. Firstly, it provides various financing options for companies and institutions, thereby stimulating economic growth and creating jobs. At the same time, a developed financial system also performs other efficient functions, such as corporate governance, mobilisation of savings, risk mitigation, resource allocation, regulatory provision and facilitation of the exchange of goods and services. By performing these functions, capital markets can alter economic growth rates by influencing the rate of capital accumulation or driving technological innovation [5]. Furthermore, investors can allocate funds to pursue capital appreciation and yield through the capital markets. Simultaneously, by diversifying securities portfolios, the capital market mitigates investment risk and establishes the equitable value of securities through trading and competition.

3.2 Impact of capital markets on investment and financing (emerging technologies and financial technology development)

Technological innovation and digitalisation have created challenges for the global financial industry[6]. The foundation of this revolution is business model innovation based on new technologies that serve customers[7][8]. Primarily, capital markets offer a crucial financing source for emerging technology firms. Such businesses generally necessitate vast amounts of capital to develop innovative technologies, introduce new products, and expand their market share. Through either stock market or private equity financing, companies can acquire the necessary funds to support their development and growth. Furthermore, the successful listing of emerging technology enterprises in the capital market has stimulated investors' interest in scientific and technological innovation, thereby attracting more funding to this sector.

Second, the advancements in financial technology have brought about greater efficiency and convenience to the capital market. For instance, the advancement of mobile payment, virtual currency, blockchain, and other technologies has presented novel prospects and predicaments towards the digitalisation and intelligence of the financial market[9][10][11]. The growth of emerging technologies like the Internet has enabled enterprises in non-traditional financial industries to penetrate the financial market, thereby stimulating the progression and modification of financial innovation and financial services. Through advancements including electronic trading platforms, blockchain technology, and smart contracts, fintech has enhanced transaction speed and accuracy, decreased transaction expenses, and amplified market liquidity. The management of fintech is the management of innovative applications in the financial sector aimed at providing customers with fast, transparent and secure financial services. In this way, technology becomes an innovative tool to improve the quality of social life and socio-economic progress and to enhance the performance, competitiveness and efficiency of financial companies[12]. However, the rapid advancement of financial technology has posed new challenges and regulatory issues. The emergence of fresh financial instruments such as digital currencies and initial coin offerings (ICOs) has generated regulatory debate, necessitating an appropriate framework to ensure the safety and legitimacy of the market. Furthermore, financial technology (fintech) creates crucial concerns such as safeguarding privacy and data security, and striking a balance between technological advancement and personal privacy preservation is vital.

3.3 Impact of capital market volatility and risk on economic recovery

Financial development and economic growth are interrelated[13]. The general economic recovery has provided developing countries with fundamental support to withstand external financial risks. However, domestic credit and debt burdens, exchange rate risks in foreign exchange markets, trade protectionism and political and geopolitical conflicts pose challenges to financial stability in emerging and developing countries. International financial markets were shaken by several political events during the year. These shocks take the form of immediate changes in the way investors price risky assets. Global equity markets rallied strongly on the back of fundamentals. Looking

ahead, the normalisation of monetary policy in the developed world will lead to a new wave of interest rate hikes, which will affect global financial markets; emerging and developing China may see a new round of capital outflows; and financial stability will be affected again[14].

Instability in investor confidence can arise due to market volatility, resulting in investors getting jittery and doubting the economic outlook. Therefore, it is crucial to manage market risks to ensure a stable economic environment. This can lead to a reduction in investment and consumption, ultimately slowing down the pace of recovery. Market volatility can create a vicious cycle by prompting investors to sell, thereby increasing market instability and negatively impacting the recovery process.

Moreover, market volatility may adversely affect retirement plans and investment portfolios, impacting the financial stability of both individuals and institutions. A reduction in asset value resulting from a declining market could diminish investors' wealth, influencing spending and investment decisions, and ultimately the overall economy. However, it is worth noting that market volatility and risk are not inherently negative. Moderate market volatility can facilitate price discovery and resource allocation, which can promote the healthy functioning of the market. To mitigate their exposure to market volatility, investors should diversify their portfolios and use risk management tools.

4 Impact of the global economic recovery on capital markets

4.1 Drivers of global economic recovery

The global economic recovery significantly affects the financial market, introducing new momentum and opportunities. Initially, the recovery encouraged greater investor confidence. As economic activity accelerates, corporate profitability and employment prospects improve, stimulating investor confidence. Investors are increasingly willing to invest in stocks, bonds and other financial products, thus boosting financial market activity.

Furthermore, the low-interest rate environment has stimulated capital markets. To spur economic recovery, central banks in several countries have adopted accommodative monetary policies, which involve decreasing interest rates and providing liquidity support. The low-interest rate environment decreases borrowing costs, promotes investment and consumption by businesses and individuals, and triggers activity in the capital market. The appetite of investors pursuing higher returns has led to an influx of funds into the stock market, securities market, and real estate market.

Moreover, industrial restructuring has produced fresh opportunities. During economic recovery, various new, innovative enterprises and industries have emerged, including technology, clean energy, as well as e-commerce. The accelerated growth within these industries presents a broad spectrum of investment opportunities for interested investors. By purchasing stocks, bonds, or related industry funds, investors can be a part of the growth of these nascent industries and reap the benefits of their expansion.

The global economic recovery has facilitated international trade and cross-border investment. The rise in worldwide market demand has incentivised multinational companies to expand their businesses and invest in overseas ventures, leading to increased liquidity in financial markets and a wider range of investment options for investors. Investors can engage in the global economic recovery by investing in international stocks, foreign exchange markets, and other means[15].

In general, the global economic recovery has provided financial markets with fresh momentum and opportunities, bolstered investor confidence, stimulated activity in capital markets, and broadened investment alternatives and participation openings. This highlights the crucial role of financial markets in bolstering economic resurgence and development.

4.2 Impact of globalisation on capital markets

Globalisation has had a significant impact on the capital market. To begin with, globalisation has broadened capital flows and investment prospects, facilitating investors to partake in investments in diverse markets worldwide[16]. In turn, this has enhanced the activity and effectiveness of capital markets. Additionally, globalisation has enabled the growth and expansion of multinational corporations, allowing them to accumulate funds and flourish in the capital markets of various countries. Simultaneously, investors can diversify risks through cross-border investments and access opportunities for global economic growth.

Additionally, globalization bolstered the connection of national capital markets and reinforced the links between global markets. Thus, providing international investors with greater ease to invest in other countries' securities markets, while companies benefit from increased cross-border financing prospects. However, globalization has posed challenges in regulating and complying with cross-border finance. Coordination in financial regulation is needed to manage volatility in capital flows and risk transmission. Furthermore, globalization has escalated the risks to financial stability and the dissemination of crises. A financial crisis in one country or region can immediately permeate into other countries or regions, producing a shock to global financial markets. Therefore, to maintain global financial stability, international financial regulators and policymakers should establish stronger cooperation and augment crisis prevention and response mechanisms. In summary, it is crucial to capitalize on the opportunities presented by globalization and effectively address the associated risks and challenges to construct a sturdy and sustainable global capital market.

4.3 The role of policies and regulations

Regulations and policies are crucial for promoting economic development and recovery. They offer vital guidance and oversight necessary to guarantee the growth and stability of capital markets. Central banks, for example, can execute monetary policy changes like tightening to manage the money supply and affect consumption and investment behaviour through interest rate adjustments. Financial regulators have a vital role in reducing financial risks and ensuring market stability through the creation and

enforcement of regulatory policies. Additionally, these policies aim to uphold investor rights and regulate market behaviour. In market economies, issues such as information asymmetry and moral hazards are widespread. Financial policies are designed to safeguard investors, improve market transparency, and reduce risks through mandatory information disclosure and regulation of financial products. Such policies stimulate financial innovation and development. To ensure financial stability, fintech must be supported alongside measures promoting financial inclusivity, and more efficient and accessible financial services. Introducing new regulatory mechanisms and establishing risk mitigation systems may be necessary to effectively manage emerging financial format-related risks [3].

Nevertheless, challenges are often encountered in the development and implementation of financial policies and regulations. The formulation process must consider a multitude of interests to ensure impartiality and efficiency. Additionally, these policies must remain adaptable to changing economic conditions and fluctuations in financial markets [3].

5 Conclusion

In conclusion, relationship between the global economic recovery and capital markets is complex and uncertain. On the one hand, the global economy is expected to continue to recover, especially if the contagion is contained. This could support corporate earnings, boost market confidence and drive equity markets higher. On the other hand, market volatility and risks remain. The global economic recovery could face challenges such as inflation, debt burdens and geopolitical tensions, all of which could hurt capital markets. In addition, central banks may gradually tighten monetary policy to address inflationary risks, which could affect bond and equity markets. In this context, policymakers need to pay close attention to market dynamics and take appropriate policy measures to maintain market stability and sustainability. Investors also need to carefully manage risk and diversify their portfolios to cope with market volatility. The time frame of this study is constrained to the current economic environment and market conditions. Future research could employ dynamic models that incorporate changing conditions and incorporate variables like inflation, debt burdens, and geopolitical events as they evolve. This will provide a more accurate and nuanced understanding of the relationship between global economic recovery and capital markets.

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