

Research On the Impact of Stock Market Price Fluctuations on Corporate Financing Costs

ZhenYu Tang

Singapore institute management, Singapore

tzy0420@foxmail.com

Abstract. The fluctuation of stock market prices is one of the research areas that has attracted much attention in the current financial market. As the core of the stock market, price fluctuations not only affect investors' investment returns, but also increase the financing costs of enterprises. This article delves into the factors that affect stock market price fluctuations, analyzes the impact of stock market price fluctuations on corporate financing costs, and further proposes corresponding suggestions to promote sustainable development of enterprises and stable operation of financial markets.

Keywords: stock market; Price fluctuations; Enterprise financing cost.

1. Introduction

In the modern financial system, as one of the important channels for corporate financing, stock market price fluctuations can have a significant impact on a company's financing decisions and costs [1,2]. Exploring the impact of stock market price fluctuations on corporate financing costs can provide a more comprehensive understanding of the mechanism and laws of the impact of stock market price fluctuations on corporate financing costs and provide useful references for enterprises to formulate financing strategies [3].

2. The definition and characteristics of market price volatility

Stock market price volatility refers to the situation where stock prices rise, fall, or fluctuate within a certain period of time. It is the result of the combined effects of market supply and demand, investor sentiment, economic data, and other factors. The fluctuation of stock market prices is uncertain, making it difficult to accurately predict their magnitude and direction of rise and fall. This is because there are various uncertain factors in the market, including economic policies, company performance, industry dynamics, as well as domestic and international political and economic environments.

The stock market price fluctuations exhibit non-linear characteristics. Even small market news or events can trigger significant price fluctuations. In addition, investor sentiment and behavior in the market can also have a non-linear impact on price fluctuations. The stock market price fluctuations have a high frequency. The market price may experience multiple fluctuations in a short period of time, and even consecutive large fluctuations. This requires investors to closely monitor market trends and make corresponding decisions at any time. The price fluctuations in the stock market are contagious, meaning that the price fluctuations of one stock or specific industry often have an impact on other related stocks or industries. This is because there is interaction and linkage between market participants, and the transmission of information and the spread of market sentiment can cause a chain reaction. The price fluctuations in the stock market have a certain degree of periodicity. Market prices often exhibit a certain cycle of ups and downs, which is related to macroeconomic cycles, seasonal factors, and market sentiment.

In summary, stock market price fluctuations are an uncertain, nonlinear, and high-frequency phenomenon with contagion and periodicity. Investors need to recognize these characteristics and adopt corresponding strategies to cope with the risks brought by market fluctuations [4].

3. Factors that affect stock market price fluctuations

3.1. Macroeconomic environment

Macroeconomic factors include economic growth, interest rate policies, inflation levels, etc., which can have a profound impact on the overall market sentiment and investor confidence. Economic growth has a significant impact on stock market price fluctuations. During periods of economic prosperity, corporate profitability increases, market expectations are good, investors are willing to buy stocks, and stock prices rise. This upward trend reduces the financing costs of enterprises, enhances investors' confidence in enterprises, and makes them believe that borrowing risks are low.

Interest rate policy is also an important factor affecting stock market price fluctuations. The central bank adjusts the benchmark interest rate to affect market liquidity and borrowing costs. When interest rates decrease, borrowing costs for businesses decrease, encouraging investment and financing activities and stimulating stock market price increases. On the contrary, rising interest rates may lead to increased financing costs for businesses, making investors more cautious and causing stock market prices to decline. The level of inflation can also have an impact on stock market prices. When the level of inflation rises, investors may worry about currency depreciation and weakened purchasing power, leading to a decrease in stock market prices and an increase in financing costs for businesses, as investors demand higher returns to cope with inflation risks [5].

In summary, the macroeconomic environment has a significant impact on stock market price fluctuations and corporate financing costs. Factors such as economic growth, interest rate policies, and inflation levels can directly or indirectly affect investors' confidence and sentiment and impact the volatility of stock market prices. Enterprises need to closely monitor changes in the macroeconomic environment, adjust their financing strategies, accordingly, reduce financing costs, and effectively manage risks.

3.2. Industry factors

The characteristics and prospects of different industries will have different impacts on the stock market, thereby affecting the cost of financing for enterprises. High growth industries often attract market attention and stimulate investors' enthusiasm. For example, industries such as technology and new energy have great growth potential, so their stock prices usually fluctuate greatly. In these industries, corporate financing costs may be lower as investors have higher expectations for future returns and are willing to support potential projects with lower financing costs. Traditional industries such as manufacturing and raw materials usually show a relatively stable development trend. These industries are less affected by market fluctuations and have relatively small fluctuations in stock prices. In these industries, the cost of corporate financing may be higher as investors are more cautious about the growth prospects of the company and pay more attention to risk management.

The competitive landscape of the industry can also have an impact on the volatility of stock market prices. If there is fierce competition and excessive supply in a certain industry, it will lead to a price drop, thereby affecting the financing cost of the enterprise. On the contrary, if an industry has high barriers or a monopoly position, the fluctuation of stock prices is relatively small, and the financing cost of the enterprise is lower. In short, the characteristics, prospects, and competitive landscape of different industries will have an impact on the prices of the stock market and affect the level of financing costs for enterprises. Enterprises need to develop corresponding financing strategies based on the characteristics of their industry, closely monitor the development of the industry, reduce financing costs, and enhance competitiveness [6].

3.3. Enterprise characteristics

The operating conditions, scale, business models, and other factors of different enterprises can lead to differences in their performance in the stock market, thereby affecting their financing costs. The financial condition of a company is an important factor affecting the volatility of stock market prices

and financing costs. Companies with good financial conditions tend to have stable stock prices because investors have higher expectations for their future returns. These enterprises can enjoy lower financing costs because investors believe that their financing repayment ability is strong.

The size and industry status of a company can also have an impact on stock market price fluctuations. Large enterprises often have higher visibility and market influence, and their stock prices are usually more stable. In the same industry, leading companies may receive higher investment attention and recognition, and their stock prices may also be more stable. These enterprises have easier access to low-cost financing opportunities. Enterprise business models, product innovation, and social responsibility, as well as technological, economic, and market factors, can also have an impact on stock market prices. Enterprises with strong innovation capabilities and social responsibility are favored by investors, and their stock prices are usually relatively stable.

In addition, in certain industries, companies with regulations on environmental protection and social responsibility can obtain lower financing costs. In short, factors such as a company's financial condition, scale, industry status, and business model can lead to differences in its performance in the stock market, which in turn affects its financing costs [7].

4. The impact of stock market price fluctuations on corporate financing costs

4.1. Rising cost of capital

Equity financing is a way for enterprises to obtain funds through issuing new shares or private equity financing, and the fluctuation of stock market prices has a direct impact on the cost of equity financing. When the stock market price fluctuates greatly, investors' sensitivity to risk will increase, and they will consider investing in corporate stocks more cautiously because the instability of the stock market increases investment risk.

To cope with this risk, investors demand higher rates of return. This means that companies need to pay higher equity costs when conducting equity financing. For issuing new shares, investors evaluate the valuation and prospects of the company and compare it with market prices. If the stock market price falls, investors believe that the valuation of the company will also decrease accordingly, so they will demand a higher issuance price. In this way, companies need to pay higher equity costs when issuing new shares, that is, attract investors with higher issuance prices. For private equity financing, investors also consider the impact of stock market price fluctuations on companies. If the stock market price falls, investors will be cautious about equity investments in companies and demand higher returns to cope with potential risks. This may manifest as higher private equity financing costs, such as investors seeking higher equity shares or higher investment returns.

In short, fluctuations in stock market prices can increase investors' sensitivity to risk and demand higher returns, directly affecting the equity costs that companies need to pay when conducting equity financing. Therefore, whether through issuing new shares or conducting private equity financing, companies need to closely monitor the volatility of the stock market when conducting equity financing and consider this factor when formulating financing strategies.

4.2. Restricted financing channels

When the stock market price fluctuates greatly and is unstable, investors tend to be cautious about the financing needs of enterprises and selectively provide financing opportunities, resulting in more difficulties and challenges for enterprises in the financing process, and can only obtain the required funds through high-cost financing channels. When facing large fluctuations in stock market prices, investors will be more cautious in considering the risks and returns of companies and concerned about the prospects and profitability of companies. Therefore, when selectively providing financing opportunities, investors will conduct more rigorous evaluations and screenings of enterprises and choose low-risk and high potential enterprises for investment.

The large fluctuations in stock market prices can also have a negative impact on investors' confidence. Investors may worry about the instability of stock prices, which increases their

investment risk. In this case, investors are more inclined to choose relatively stable and safe financing channels, such as the bond market or other low-risk investment tools. Enterprises can only obtain the necessary funds through high-cost financing channels, such as issuing high interest bonds or relying on high interest loans. In this situation, enterprises need to flexibly adjust their financing strategies and actively seek other financing channels, such as in-depth communication and negotiation with investors, or exploring other forms of cooperation, in order to reduce equity financing costs and meet funding needs.

4.3. Tightening financing conditions

Tightening financing conditions refer to financial institutions tightening their financing conditions for enterprises in the face of significant fluctuations in stock market prices. This is mainly reflected in banks and other creditors reassessing the credit rating of enterprises and proposing higher collateral or guarantee requirements, further increasing the difficulty and cost of corporate financing. Fluctuations in stock market prices can affect a company's credit rating. Financial institutions evaluate the credit risk and repayment ability of enterprises when considering providing financing for them. When the stock market price fluctuates greatly, financial institutions will re-evaluate the credit status of the enterprise, regard it as a high-risk customer, and become more stringent on the financing conditions of the enterprise, including increasing borrowing rates, reducing loan amounts, or requiring additional guarantee measures.

In the context of large fluctuations in stock market prices, financial institutions hope to reduce risks by increasing collateral or guarantees, requiring companies to provide more valuable assets as collateral, or seeking other forms of guarantees, such as corporate property or personal property guarantees from shareholders. Enterprises need to pay higher loan interest rates and take additional guarantee measures, and even provide more valuable assets as collateral. This not only increases the financing cost of the enterprise, but also increases the difficulty of financing. In this situation, companies can actively communicate and negotiate with financial institutions, provide sufficient information and data to prove their credit status and repayment ability, and also consider other financing channels such as private equity financing, venture capital, etc. In addition, enterprises can better meet the financing requirements of financial institutions by optimizing business management, improving profitability, and enhancing their own credit.

4.4. Market reaction uncertainty

Market reaction uncertainty refers to the volatility of stock market prices that may trigger investor sentiment, and this uncertainty will have an impact on the financing costs of enterprises. When market sentiment is low, companies may face higher financing costs. When market prices are in a downward cycle, investors often feel uneasy and have negative expectations for the future economic and business prospects. This low mood has made investors more cautious and their tolerance for risk has decreased. Therefore, when companies attempt financing in this situation, they need to pay higher financing costs. The sluggish market sentiment may also lead to changes in investors' assessment of corporate credit risk. Investors will re-examine the financial situation of companies and strengthen their assessment of credit risks, leading to higher requirements from financial institutions for corporate financing conditions, requiring more guarantees or collateral, and increasing the burden of corporate financing costs.

In order to reduce the impact of low market sentiment, companies can optimize their financial and operational conditions to enhance investor confidence. When facing sluggish market sentiment and uncertainty, enterprises also need to maintain confidence in the long-term stability of the market, enhance risk management awareness and economic trend judgment ability, fully grasp the risks and opportunities brought by economic policy uncertainty, avoid blindly following market fluctuations, and thus formulate the optimal financing plan.

5. Summary

The fluctuation of stock market prices has a significant impact on the financing costs of enterprises. Enterprises need to closely monitor market changes, flexibly respond to price fluctuations, reduce financing costs, and improve financing efficiency. In the future, we can further explore the impact mechanisms under different market environments and propose more specific and practical suggestions.

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