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**Exploring the Dimensions of Investors' Trust in an Emerging Market**

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**Abstract**

This study analyses the impact of various factors, namely macroeconomic policies, the legal environment, investor awareness, institutional capabilities, and market practices, on the perceived benefits of Nepal's stock market. The study employed a quantitative research design including descriptive and causal effects. A total of 402 responses were used from a survey employing a non-probability sampling technique. The results indicate that legal and regulatory structures, institutional framework, investor education, and market intermediary performance significantly enhance investor perceptions. However, the results indicate a significant and negative effect of regulators' roles, indicating poorly articulated policies that discourage investors. The macroeconomic policies and market practices showed an insignificant impact. It is concluded that the proper functioning and sustainable development of Nepal's stock market require harmonized efforts from policymakers, regulators, intermediaries, and investors, supported by the close integration of multidimensional aspects of operational effectiveness, well-established infrastructure, professional integrity, and digital transformation. The study contributes to research on capital market development by providing evidence on the dynamics of institutional and market-related factors that drive investor sentiment and shape capital markets in emerging nations.

*Keywords:* emerging equity markets, investor awareness, investor behavior, institutional capacity, legal and regulatory framework, macroeconomic factors

*JEL Classification Code:* G12, G18, G28, G32, G41

**Exploring the Dimensions of Investors' Trust in an Emerging Market**

The equity market is a basis for enhancing economic growth, as it channels savings into productive investments, supports capital accumulation (Yıldırım & Yıldırım, 2025), and provides avenues for investment (Dell'Anna, 2021). Nepal's equity market has experienced steady growth in recent years, but small investors, who make up a large share of the market, do not understand its advantages (Shah et al., 2025). The existing issues, which include insufficient informational transparency (Roszkowska, 2021), weak regulatory enforcement (Li, 2025), and insufficient institutional mechanisms (Zhang et al., 2022), persist despite recent regulatory and technological changes. These issues undermine confidence in the market, constraining its ability to support national economic growth. Investors who see advantages like growing their wealth, diversifying their portfolios and protecting against inflation tend to invest in stocks that improve market liquidity and market depth (Yu et al., 2024). Existing research studies have focused on developed economies, creating a research gap regarding Nepal and other emerging economies (Regmi, 2022).The international community shows two priorities, which include digitalization and developing financial literacy education initiatives (Koskelainen et al., 2023).

Research scholars have carried out an extensive study which discover both the structural dimensions and the operational conduct of the financial system in Nepal. Karna et al. (2024) stated a continuous gap in total market value, market transactions, and the application of emerging technologies. Giri and Gurung (2025) highlighted that the combination of market sentiments resulting from heuristics and herding behavior influences the decision-making processes of individual investors. Jha and Dhungana (2021) further validate the Adaptive Market Hypothesis (AMH) in the context of Nepal. The authors emphasized that the market efficiency depends on organizations continues adjustments to react to the new laws and regulations to maintain a transparent information mechanism.

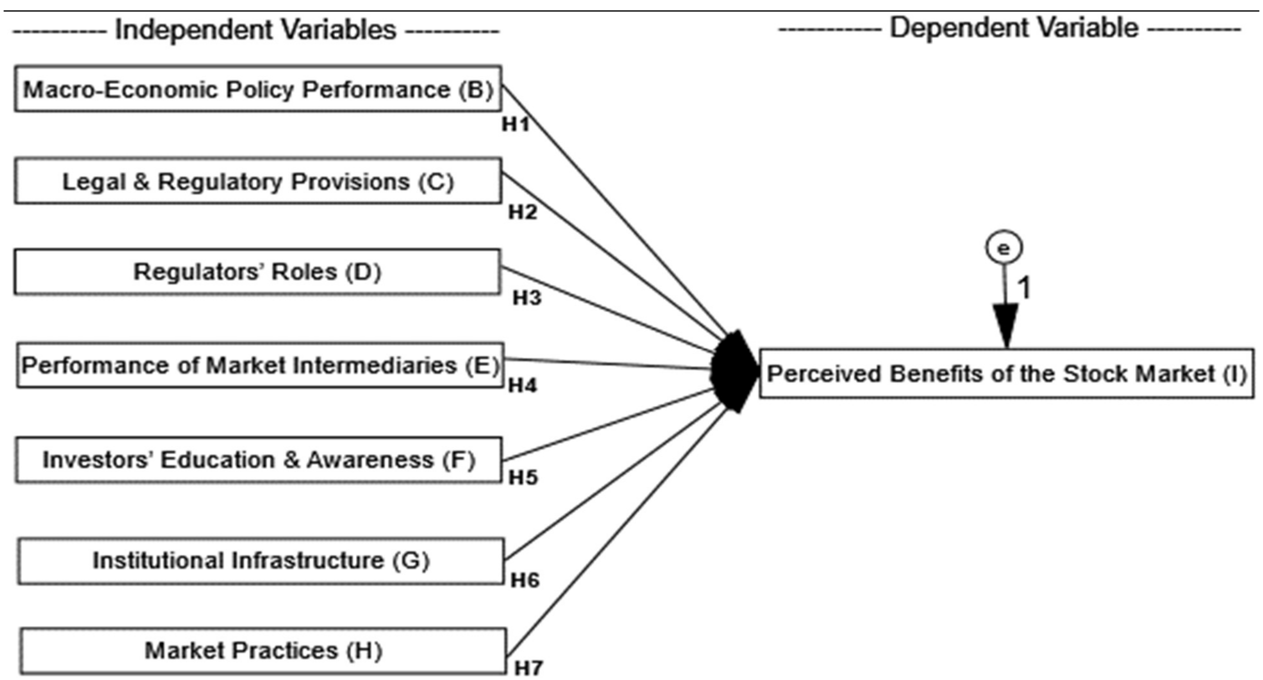
This research work concentrated on macroeconomic, monetary and behavioral perspectives. This study explored the interactive effects of environmental forces on investors' confidence and their consequences in the country's capital market. It supports multidimensional benefits across different sectors of the economy. Regulators can facilitate transparency and accountability in fostering trust among market participants and translating savings into economic growth for the ultimate societal well-being. This paper is divided into six main sections that include introduction, literature review, research methodology, findings, conclusion, and references.

**Literature Review**

The market efficiency theoryargues for the importance of institutional, economic, and informational factors in creatinginvestors' confidence level (Naveed et al., 2021), especially in emerging markets. Behavioral finance theory, for example, explores how psychological biasessuch asaversionto risk, overconfidence, and herd behavior shape investors' perceptions and investment choices, especially in environments with limited financial knowledge (Mittal, 2022). From the institutional theory perspective, it highlights the role of formal and informal structures (Ault & Spicer, 2022); regulatory foundations and cultural factors (Emon & Khan, 2023). The theoretical approaches provide a holistic and complex phenomenon of Nepal's stock market,offering a strongbasis, supporting the design of targeted reforms and inclusive practices to enhance perceived benefitsof market participants (Hedley & Freer, 2022). Figure 1 presents the conceptual framework of the study based on the prevailing theoretical underpinnings.

**Figure 1**

*Research Framework*



***Macroeconomic Policy Performance***

The existing literature shows how macroeconomic factors create major effects on the stock market movements that occur in Nepal. Bhattarai and Joshi (2009) provide evidence of both short- and long-run interrelationships between key macroeconomic variables and the Nepalese stock market. Shrestha and Subedi (2014) show that the stock market moves downward when interest rates change, but it reacts positively to inflation and broad money supply growth. The research conducted by Karki et al. (2024) shows that gross domestic product (GDP), together with exports and imports and exchange rates, serve as essential factors that determine how Nepal's equity market performs. Macroeconomic policy performance acts as an essential factor that determines how investors perceive markets and what market results will be. Stable macroeconomic policies designed for economic growth create higher investor confidence through their ability to bring economic stability and generate better financial outcomes.

*H1: Macroeconomic policy performance has a significant impact on the investors' perceived benefits.*

***Legal and Regulatory Provisions***

The legal and regulatory framework of Nepal serves as the main factor that determines the growth and operational success of its stock market. Koirala and Bajracharya (2004) argue that the early growth of the Nepal Stock Exchange was constrained by low trading performance, weak corporate governance practices, and inadequate legal enforcement mechanisms. Adhikari (2013) states that weak regulatory and institutional frameworks create challenges that prevent Nepal from developing its capital market.

Recent studies show that progress in stock market development has been slow. The research conducted by Pandey et al. (2022) shows that financial sector restructuring initiatives have improved regulatory performance, but fundamental disparities within the system continue to exist. The research conducted by Maharjan and Bhattacharya (2024) shows that Nepal's legal and regulatory frameworks shape how people choose to invest in the stock market. The research results demonstrate that strong legal and regulatory systems build investor trust, make markets transparent and increase investment value.

*H2: Legal and regulatory provisions have a notable positive impact on the perceived benefits of the stock market in Nepal.*

***Regulator's Role***

The capital market in Nepal depends on the efficiency of its regulatory authorities to determine its progress and operational capacity. Panthi and Chalise (2021) document that, despite the introduction of progressive policies, the capital market in Nepal continues to face structural challenges, which include political vulnerability, limited investor participation and weak regulatory enforcement. The existing restrictions demonstrate how policies need better execution to achieve their intended results. Karmacharya (2023) demonstrates that when investors understand their investment objectives, they create better conditions for capital market growth, which shows that regulators must educate investors and conduct outreach programs for their protection. Paudel et al. (2024) demonstrate that investors base their choices on three essential investment factors: risk-return trade-offs and available securities plus market liquidity, which depend on how regulations function. The research demonstrates that effective regulatory oversight protects market integrity and transparency while creating a safer investment environment that attracts more investor protection benefits.

*H3: Regulators' roles have a significant impact on the investors' perceived benefits.*

***Performance of Market Intermediaries***

Market intermediaries play a critical role in enhancing the efficiency, transparency, and accessibility of stock markets. In the context of Nepal, Maharjan and Bhattacharya (2024) document a strong nexus between the NEPSE Index and macroeconomic conditions, emphasizing the influence of factors such as money supply, interest rates, inflation, and exchange rates, while also implying the importance of institutional mechanisms in transmitting these effects to the market. Furthermore, Karna et al. (2024) reveal that, despite increasing investor participation, structural inefficiencies—such as technological limitations and economic instability-continue to hinder stock market performance. These findings collectively highlight those efficient and reliable market intermediaries, including brokers, depository participants, and financial service providers, are essential for improving market liquidity, reducing transaction costs, and strengthening investor confidence, thereby enhancing the perceived benefits of stock market participation.

*H4: The performance of market intermediaries hasa significant impact on the perceived benefits of the stock market in Nepal.*

### *Investor's Education and Awareness*

The population of Nepal shows two important factors that control investment activities and market presence, which are investor education and awareness. According to Gurung (2018) the public trust in Nepal's equity market continues to face challenges which require better investor education and market transparency. Karki and Kafle (2020) show that financial literacy functions as a primary element that determines how much risk Nepalese investors are willing to accept. Rawat (2023) shows that herding behavior and awareness levels control how people make their investment decisions, while Karmacharya et al. (2022) demonstrate that herding behavior and market changes decide how investors choose their investments. Ghimire and Adhikari (2023) demonstrate that increased awareness leads to better mutual fund investment decisions according to their research findings. The studies demonstrate that better investor education programs lead to higher decision-making accuracy, lower irrational behavior, and increased investor confidence, which results in greater stock market participation and perceived advantages.

*H5: Investors' education and awareness have a significantimpact on the perceivedbenefits of the equity market in Nepal.*

### *Institutional Infrastructure*

Institutional infrastructure constitutes a fundamental pillar for the development and efficiency of capital markets in Nepal. Adhikari (2013) concludes that deficiencies in regulatory frameworks, institutional capacity, and market infrastructure are primary contributors to the underdevelopment of Nepal's capital market. The study by Dahal et al. (2025) shows that the stock market, together with banking institutions maintain a primary influence over the financial system of Nepal while comparing their institutional development against other sectors. Poudel and Shrestha (2019) found that active trading markets with efficient operational systems lead to better stock returns because trading volume increases. The research of Dhungana et al. (2023) establishes that economic growth and equity market development achieve long-term integration, which demonstrates that strong institutional foundations maintain market performance. The research results show that strong institutional infrastructure enables markets to operate better while maintaining liquidity and building investor trust, which results in greater advantages for stock market investors.

*H6: Institutional infrastructure has a significant impact on the perceived benefitsof the stock market in Nepal.*

### *Market Practices*

Market practices play a critical role in shaping investor behavior and overall stock market performance in Nepal. The stock market experiences returns that news coverage affects (Rawat, 2023), with negative news creating a larger impact than positive news. The research conducted by Pokhrel (2023) investigates NEPSE performance during COVID-19 by showing the market experienced a sudden decline, which slowly recovered afterward, since external events affected market operations. The research conducted by Chettri (2021) shows that equity market growth helps financial sector development, while Regmi (2022) shows that specific company factors determine the risk and return of Nepalese commercial bank stocks. Joshi (2024) demonstrates that NEPSE trading practices do not achieve complete weak-form market efficiency because they create informational inefficiencies within the market. The current market practices, which include information distribution and investor behavior and market structure elements, create a major impact on how the investors view things and make choices which lead to changes in their evaluation of stock market advantages.

*H7: Market practices have a notable impact on the perceived benefits of the stockmarket in Nepal.*

## Methodology

The study aimed to analyze investors' perceptions of stock market benefits and their role in shaping trust and confidence in Nepal's stock market. To achieve this, the data collection process relied on perceptual measures to capture the understanding and perspectives of individual investors in the Nepalese securities market. The primary data were collected through a field survey questionnaire using a non-probability sampling technique to collect survey responses from individual investors who are familiar with and have direct experience of stock market practices in Nepal. Respondents were approached through brokerage offices and stock investment forums located at various places in Nepal. Ethical approval was obtained from the Ethics Committee of Nepal Commerce Campus (Ref. No. 256/082-083, 27 June 2025), and written informed consent was obtained from all participants. The variables constructed in the study are based on the relevance in prior literature and the context of the stock market of Nepal.

A total of 800 questionnaires were distributed to the target individuals between July and September 2025, and 402 valid responses were collected. These responses are deemed adequate, since Hair et al. (2010)suggest a minimum sample size of 200 for social science research. Table 1 presents the respondents' demographic information.

**Table 1**

*Respondents' Demography*

| | No. | % | | No. | % |
|---|---|---|---|---|---|
| *Sex:* | | | *Profession:* | | |
| Male | 264 | 65.7 | Academician | 55 | 13.7 |
| Female | 138 | 34.3 | Investors | 160 | 39.8 |
| *Age in years:* | | | Service holders | 159 | 39.6 |
| 30 and below | 63 | 15.7 | Others | 28 | 6.9 |
| 31 to 49 | 298 | 74.1 | *Years of experience in the security market:* | | |
| 50 and above | 41 | 10.2 | 5 and below | 94 | 23.4 |
| *Academic qualification:* | | | 6 to 10 | 175 | 43.5 |
| Undergraduates | 14 | 3.5 | 11 to 15 | 68 | 16.9 |
| Graduates | 58 | 14.4 | 15 to 20 | 37 | 9.2 |
| Postgraduates | 330 | 82.1 | 21 and above | 28 | 7.0 |
| Total (each section) | 402 | 100.0 | Total (each section) | 402 | 100.0 |

The research questionnaire contains 68 items, each measured on a 5-point Likert scale from 1 (strongly disagree) to 5 (strongly agree). Since Karatepe (2012) argued that collecting data contemporaneously and relying on self-reported measures may weaken relationships among variables, this study employed the Harman one-factor test, as recommended by Podsakoff et al. (2003), to examine the presence and extent of common method bias (CMB). CMB is not regarded as a serious concern as a single factor derived from Harman's one-factor test from 63 study variables accounts for only 16.476%, which explains less than 50% of the total variance, according to Cho and Lee (2012).

The inter-item consistency was evaluated using Cronbach's alpha ($\alpha = 0.898$) and the average inter-item correlation across 63 factors influencing perceived benefits of the stock market, confirming the overall reliability of the measurement instruments. Kaiser-Meyer-Olkin (KMO) statistics verified sample adequacy, and Bartlett's test of sphericity showed a statistically significant result and confirmed the presence of relationships among the variables undertaken. Table 2 reports the reliability and external validity of each of the constructs of the study.

**Table 2**

*Reliability and External Validity Insights*

| Construct | Test items | Reliability insights: Alpha (α) | Reliability insights: Ave. inter-construct correlation (r) | External validity insights: KMO value | Bartlett's test of sphericity: Chi-square | df | p-value |
|---|---|---|---|---|---|---|---|
| Macroeconomic policy performance (B) | 6 | 0.718 | 0.299 | 0.766 | 401.729 | 15 | 0.000 |
| Legal and regulatory provisions (C) | 7 | 0.862 | 0.478 | 0.845 | 1214.249 | 21 | 0.000 |
| Regulators' roles (D) | 10 | 0.883 | 0.454 | 0.899 | 1612.196 | 45 | 0.000 |
| Performance of market intermediaries (E) | 7 | 0.755 | 0.308 | 0.813 | 566.778 | 21 | 0.000 |
| Investors' education and awareness (F) | 10 | 0.722 | 0.210 | 0.778 | 580.272 | 45 | 0.000 |
| Institutional infrastructure (G) | 8 | 0.742 | 0.262 | 0.770 | 613.314 | 28 | 0.000 |
| Market practices (H) | 6 | 0.703 | 0.285 | 0.755 | 373.969 | 15 | 0.000 |
| Perceived benefits of the stock market (I) | 9 | 0.731 | 0.245 | 0.761 | 661.951 | 36 | 0.000 |

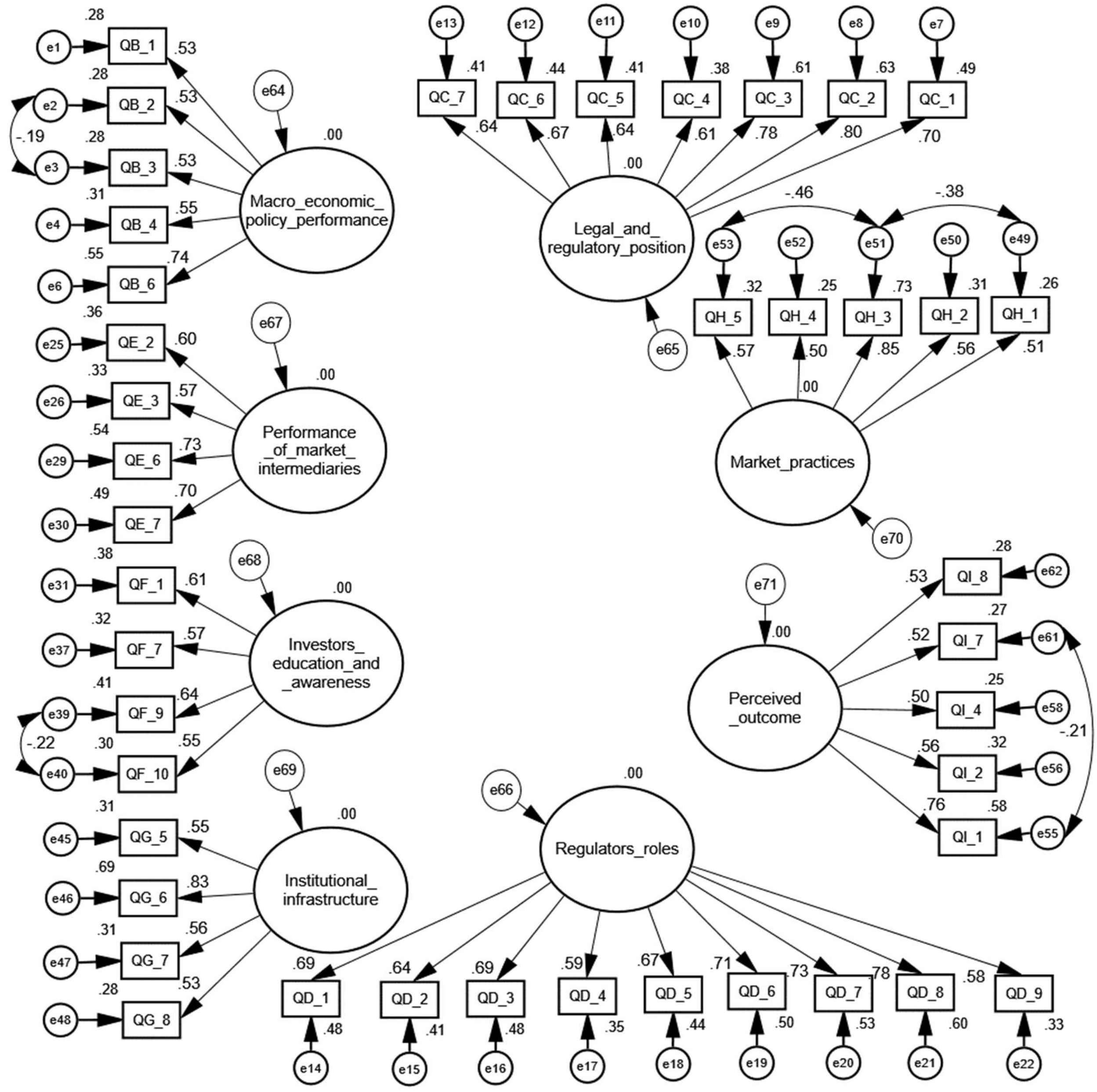
The results presented in Table 2 show that Cronbach's alpha shows the data are internally consistent (Taber, 2018), and the average inter-construct correlation falls within the acceptable range as suggested by Clark and Watson (1995). These findings indicate that the constructs showed adequate reliability, and the sample size is sufficient to proceed with further data analysis.

## Outcomes

Structural equation modeling (SEM) using AMOS assessed interrelationships among factors influencing perceived benefits. Convergent and discriminant validity were established following Fornell and Larcker (1981). Only scale items with standardized regression weights of 0.50 or greater were retained (Hair et al., 2010). Figure 2 presents the results from 43 test items representing eight latent constructs.

**Figure 2**

*Regression Weights and Retained Measurement Test Items*




The independent construct's discriminant validity is assessed with the criterion proposed by Fornell and Larcker (1981). Table 3 presents the results of internal validity metrics and Pearson's correlation coefficients to measure the intensity and direction ofkey indicators shaping the perceived benefits.

**Table 3**

*Internal Validity Insights*

| Latent Variables | | Retained test items (Nos) | Convergent validity | | Discriminant validity | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | CR | AVE | B | C | D | E | F | G | H |
| IVs | B | 5 | 0.719 | 0.343 | **0.586** | | | | | | |
| | C | 7 | 0.868 | 0.487 | .198** | **0.698** | | | | | |
| | D | 9 | 0.885 | 0.464 | .153** | .642** | **0.681** | | | | |
| | E | 4 | 0.750 | 0.431 | .279** | .390** | .359** | **0.657** | | | |
| | F | 4 | 0.702 | 0.356 | .074 | .204** | .271** | .162** | **0.597** | | |
| | G | 4 | 0.721 | 0.401 | .194** | .243** | .198** | .332** | .139** | **0.633** | |
| | H | 5 | 0.745 | 0.379 | -.061 | .029 | .052 | .091 | -.117* | -.026 | **0.616** |
| DV | I | 5 | 0.717 | 0.342 | - | - | - | - | - | - | - |

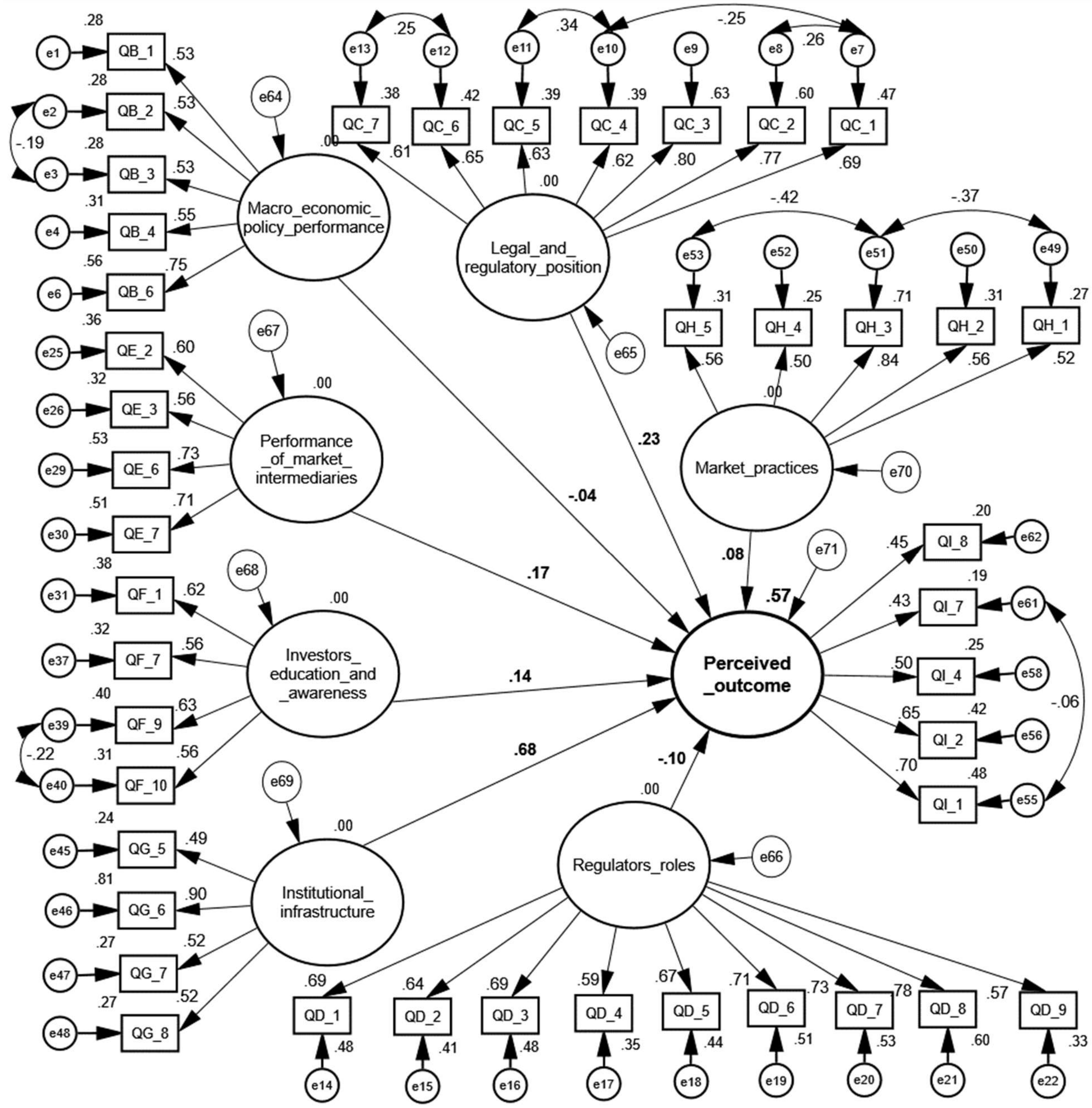
***. Correlation is significant at the 0.01 level (2-tailed).*
**. Correlation is significant at the 0.05 level (2-tailed).*

All the constructs exhibited acceptable CR and AVE less than 0.5, as suggested by Fornell and Larcker (1981), indicating robust measurement validity. Moreover, the square root of the AVE (presented in the diagonal in bold) for each construct showed higher statistical significance than the correlations between distinct constructs (off-diagonal), indicating that the constructs possess strong discriminant validity. The results further suggest that the model is free from multicollinearity among the measured variables.

The study employed regression analysis to examine the influenceof influential factors on the perceived benefits of the stock market in Nepal. The responses on the scale were treated as having equal intervals, allowing for a thorough examination of the connection between dependent and independent variables in the present analysis. Figure 3 displays the assessment of the suggested routes, the model's ability to explain employing several correlational indices, and the standardized coefficient estimates for all latent factors.

**Figure 3**

*The Study Model*




The values of model fit indices meet the thresholds recommended by various scholars. The statistical results from the model confirm that the independent variables jointly explained around 57.0% of the perceived benefits of stock market variation in Nepal. Table 4 displays the estimated parameters of the regression model.

**Table 4**

*Estimated Parameters of the Regression Model*

| Regression routes | Unstandardized Reg. Weight | Standardized Reg. Weight | Standard Error | Critical Ratio | p-value |
|---|---|---|---|---|---|
| B-------->I | -0.023 | -0.044 | 0.029 | -0.791 | 0.429 |
| C-------->I | 0.127 | 0.225 | 0.033 | 3.817 | *** |
| D -------->I | -0.058 | -0.103 | 0.029 | -1.982 | 0.047* |
| E-------->I | 0.075 | 0.169 | 0.026 | 2.870 | *** |
| F-------->I | 0.112 | 0.137 | 0.049 | 2.258 | 0.024* |
| G -------->I | 0.486 | 0.677 | 0.078 | 6.204 | *** |
| H -------->I | 0.096 | 0.077 | 0.065 | 1.479 | 0.139 |

**** Significant at the 0.01 level.*
** Significant at the 0.05 level.*

Table 5 summarizes hypotheses and corresponding comments at the 0.05 significance level derived from the model illustrated in Figure 3, along with the estimated parameters presented in Table 4.

**Table 5**

*Summary of Testing Hypotheses*

| Statements | Outcome | Remarks |
|---|---|---|
| *H1: Macroeconomic policy performance has a significant impact on the investors' perceived benefits.* | $\beta = -0.044; p > 0.05$ | **Rejected** |
| *H2: Legal and regulatory provisions have a notable positive impact on the perceived benefits of the stock market in Nepal.* | $\beta = 0.225; p < 0.05$ | **Accepted** |
| *H3: Regulators' roles have a significant impact on the investors' perceived benefits.* | $\beta = -0.103; p < 0.05$ | **Accepted** |
| *H4: The performance of market intermediaries has a significant impact on the perceived benefits of the stock market in Nepal.* | $\beta = 0.169; p < 0.05$ | **Accepted** |
| *H5: Investors' education and awareness have a noteworthy impact on the perceived benefits of the stock market in Nepal.* | $\beta = 0.137; p < 0.05$ | **Accepted** |
| *H6: Institutional infrastructure has a significant impact on the perceived benefits of the stock market in Nepal.* | $\beta = 0.667; p < 0.05$ | **Accepted** |
| *H7: Market practices have a notable impact on the perceived benefits of the stock market in Nepal.* | $\beta = 0.077; p > 0.05$ | **Rejected** |

The results reported in Table 5 show a strong and statistically significant relationship between the perceived benefits of the stock market in Nepal with legal and regulatory provisions (C), the performance of market intermediaries (E), investors' education and awareness (F) and institutional infrastructure (G).The variables positively influence the perceived benefits of the equity market in Nepal, as indicated by a p-value below 0.05. The findings support and validate hypotheses H2, H4, H5, and H6. The findings contradict hypothesis H3, as the regulators' roles (D) revealed a statistically significant negative effect on the perceived benefits. Despite expectations, the macroeconomic policy performance (B) and market practices (H) did not significantly impact the perceived benefits.

The empirical analysis shows that market and institutional variables jointly explain variation in perceived benefits of the stock market, and the estimated model has satisfactory explanatory power. The results indicate that legal and regulatory provisions, the performance of market intermediaries, investors' education and awareness, and institutional infrastructure have a positive and statistically significant influence on perceived benefits, and the associated alternative hypotheses are supported. Conversely, the regulators' roles have revealed a negative and significant impact. However, macro-economic policy and market practices do not show a statistically significant relationship with the perceived benefits. The findings collectively highlight the multifaceted nature of the capital market ecosystem. The study presents excellent model fit indices, all meeting the recommended thresholds, indicating the robustness of the proposed SEM in explaining variations in perceived stock market benefits and aligning with prior research (Baral, 2019; Hair et al., 2010).

## Discussion

The study found that institutional and regulatory dimensions are the most influential in shaping investors' trust in Nepal's equity market. Legal and regulatory provisions (Maharjan & Bhattacharya, 2024; Pandey et al., 2022) significantly enhance perceived benefits, underscoring the importance of transparent enforcement and credible governance structures.

The performance of market intermediaries also plays a positive role (Karna et al., 2024), reflecting the importance of efficient brokerage services and credible market practices in reducing transaction costs and improving liquidity. Investor education and awareness (Ghimire & Adhikari, 2023; Karki & Kafle, 2020) further contribute to perceived benefits, validating the role of financial literacy in mitigating behavioral biases such as herding (Karmacharya et al., 2022; Rawat, 2023).

Contrary to expectations, regulators' roles showed a significant negative effect (Panthi & Chalise, 2021), suggesting that poorly articulated policies and weak enforcement discourage investor participation. This finding aligns with prior studies emphasizing political vulnerability and regulatory inefficiency (Paudel et al., 2024). Similarly, macroeconomic policies and market practices did not significantly influence perceived benefits, indicating that broader economic indicators (Bhattarai & Joshi, 2009; Shrestha & Subedi, 2014) and short-term market fluctuations (Joshi, 2024; Pokhrel, 2023) are less relevant to individual investors' trust compared to institutional and regulatory factors.

Results confirm that investor confidence in Nepal's equity market is shaped more by institutional credibility, regulatory transparency, and investor education than by macroeconomic conditions or market practices. This reinforces the argument that emerging markets require multidimensional reforms integrating institutional development, regulatory clarity, and financial literacy initiatives (Ault & Spicer, 2022; Koskelainen et al., 2023).

## Conclusions

This study reveals that investors' trust in Nepal's equity market is primarily driven by institutional infrastructure, legal and regulatory provisions, market intermediaries' performance, and investor education. These factors significantly enhance perceived benefits, while regulators' roles exert a negative influence, and macroeconomic policies and market practices remain insignificant. For sustainable capital market development, Nepal must prioritize transparent governance, credible institutions, and digital transformation to foster investor confidence. By addressing regulatory weaknesses and enhancing institutional mechanisms, the equity market can better channel savings into productive investments, support economic growth, and align with global priorities of financial literacy and digitalization. The study contributes to the literature on emerging markets by evidencing that institutional and regulatory dimensions, rather than macroeconomic indicators, are central to shaping investor sentiment and trust.

Despite offering important empirical evidence on the determinants of investors' perceptions in Nepal's equity market, this study has limitations that warrant future research. First, the findings are context-specific and lack generalizability to other emerging markets. Second, the reliance on cross-sectional data restricts insights into long-term trends. Third, alternative approaches, such as interviews with larger, more diverse samples, could provide richer evidence. Finally, incorporating additional factors, such as political instability, foreign investment, and global economic trends, would further illuminate the complex relationship between investors' perceived benefits and broader market dynamics. Addressing these limitations can strengthen the robustness of future studies and provide comparative insights across different emerging economies.

**Declaration of conflict of interest**

The author declares that there are no conflicts of interest regarding the publication of this paper.

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**Data Availability Statement**

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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