

## Mechanism analysis of financial market volatility's influence on enterprise's financial decision-making

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**Abstract:** Under the background of financial market volatility, corporate financial decision-making faces many challenges and opportunities. Financial market volatility has a far-reaching impact on enterprise financial decision-making by affecting key links such as fund raising, investment decision-making, asset management and risk management. In terms of financing, volatility increases the difficulty and cost of issuing stocks and bonds; In investment decision-making, volatility increases investment risk and uncertainty, prompting enterprises to adjust investment strategies; In asset management, volatility intensifies the uncertainty of asset value and increases the risk of impairment; In terms of risk management, volatility requires enterprises to identify risks and adopt diversified investment and hedging strategies to deal with them. This paper also puts forward financial strategies for enterprises to cope with the volatility of financial markets, including capital structure adjustment, investment strategy selection, risk management, financial planning and budget adjustment, etc., to help enterprises reduce risks, seize opportunities and achieve sustainable development.

### 1. Introduction

Financial market volatility, as a normal economic phenomenon, not only reflects the uncertainty of market participants' future economic expectations, but also reflects the comprehensive role of various macroeconomic factors, political and geopolitical factors and market sentiment.

Enterprise financial decision-making, as an important part of enterprise management, involves many aspects such as fund raising, investment decision-making, asset management and risk management [1]. Under the background of financial market volatility, enterprise financial decision-making is facing unprecedented challenges and opportunities. On the one hand, market volatility may increase the financing cost of enterprises, affect the return on investment of enterprises, and even endanger the financial stability of enterprises; On the other hand, market volatility may also bring opportunities such as low-cost mergers and acquisitions and asset restructuring, and promote the optimization and upgrading of enterprises [2].

Therefore, an in-depth analysis of the influence mechanism of financial market volatility on enterprise financial decision-making is not only of great significance for understanding the interactive relationship between financial market and real economy, but also of great practical value for enterprises to formulate effective financial strategies, cope with market volatility and realize sustainable development. This paper discusses how the fluctuation of financial market affects the financial decision-making of enterprises, and how enterprises can adjust their financial strategies according to market fluctuation in order to reduce risks, seize opportunities and maximize profits.

### 2. Cause analysis of financial market volatility

As a normal phenomenon in financial markets, financial market volatility has complex and diverse causes, involving macroeconomics, political geography, market participants' emotions and behaviors. The causes of financial market volatility are shown in Figure 1.

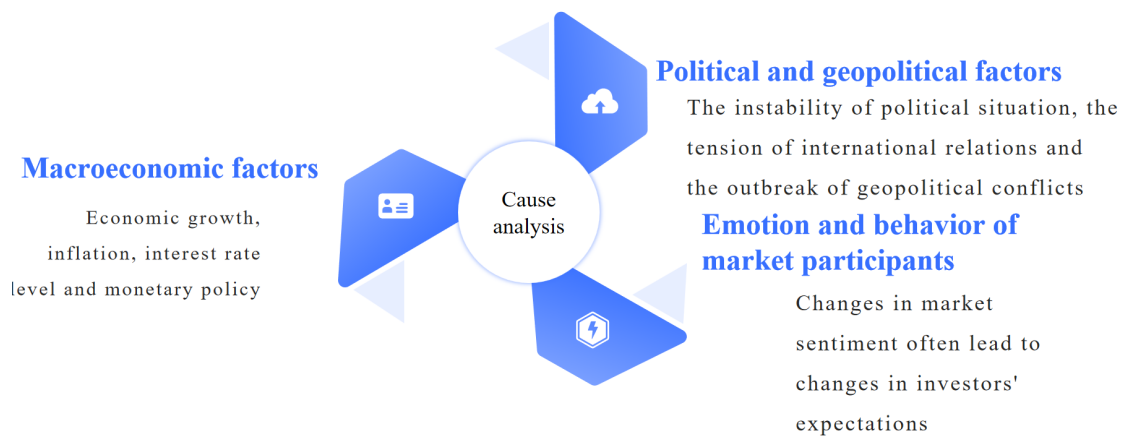


Figure 1 Causes of financial market volatility

### 2.1. Macroeconomic factors

Macroeconomic factors are one of the important factors that affect the volatility of financial markets. Changes in macroeconomic indicators such as economic growth, inflation, interest rates and monetary policy will directly or indirectly affect the trend of financial markets [3]. For example, the slowdown in economic growth may lead to a decline in corporate profitability, which in turn will lead to a decline in the stock market; Rising inflation may prompt the central bank to raise interest rates and market interest rates, thus affecting the price of the bond market.

### 2.2. Political and geopolitical factors

Political and geopolitical factors are also important sources of financial market volatility. The instability of the political situation, the tension of international relations and the outbreak of geopolitical conflicts may all trigger panic in the market, leading to the capital fleeing from risky assets and seeking safe-haven assets [4]. This change in capital flow will often aggravate the volatility of financial markets.

### 2.3. Emotion and behavior of market participants

The mood and behavior of market participants have an important influence on the volatility of financial markets. Changes in market sentiment often lead to changes in investors' expectations, thus affecting the comparison of buying and selling power in the market. For example, when the market is optimistic, investors may be more inclined to buy risky assets to push the market up; When the market sentiment is pessimistic, investors may be more inclined to sell risky assets, leading to a market decline [5]. Speculation, herding and other market participants' behaviors may also aggravate market volatility.

## 3. Influence mechanism of financial market volatility on enterprise financial decision-making

In today's global and highly interconnected economic environment, financial market volatility has become one of the key factors affecting corporate financial decision-making. Financial market volatility refers to the degree of financial asset price changes in a certain period of time, which may be affected by many factors, such as macro-economy, policy adjustment, market sentiment, company performance and so on. The influence mechanism of financial market volatility on enterprise financial decision-making is shown in Figure 2.

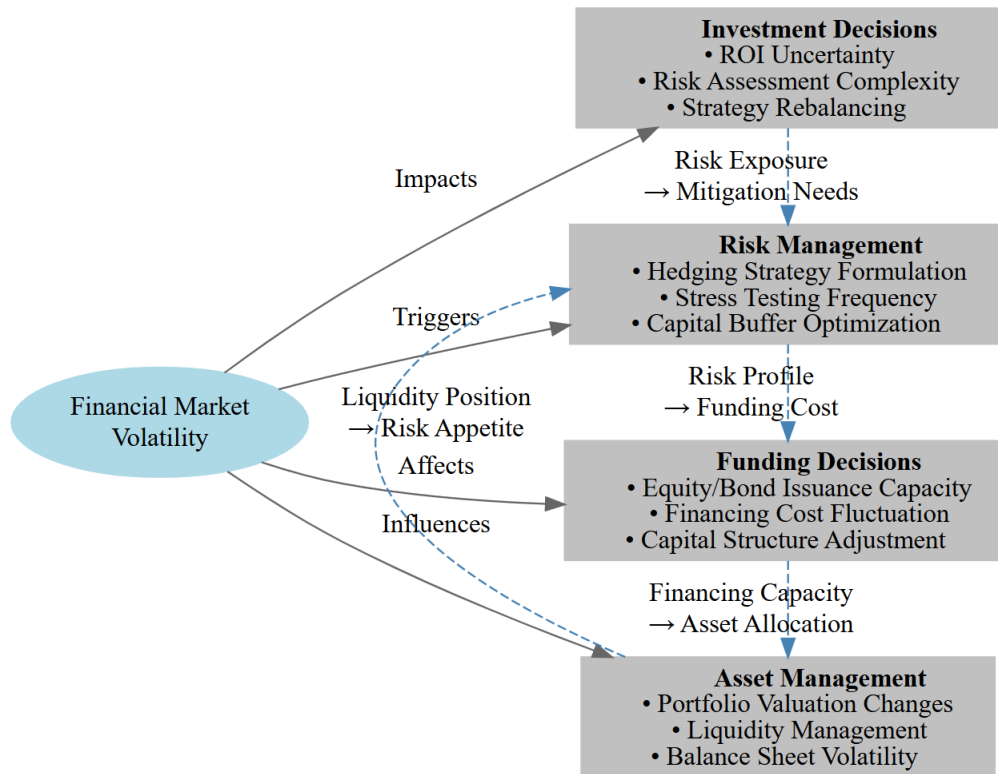


Figure 2 Influence mechanism of financial market volatility on enterprise financial decision-making

### 3.1. Fund raising

Financial market volatility has a significant impact on stock issuance, which is mainly reflected in market sentiment, investor confidence and market valuation and pricing. In the environment of increasing volatility and uncertain trend, investors tend to take a cautious attitude, which leads to a decline in the attractiveness of new share issuance, and enterprises have to lower the issuance price or extend the issuance cycle to attract investment. Volatility increases the uncertainty of stock valuation, making the pricing process more complicated. Enterprises need to invest more resources to communicate with the market to ensure that the issue price accurately reflects its value, and may also face higher financing costs, thus affecting capital structure decisions.

For bond issuance, the volatility of financial market also brings a series of challenges, including the increase of credit risk, the rise of interest rate, the weakening of market demand and stricter issuance conditions [6]. Volatility may cause the credit risk of enterprises to be amplified, which makes bond investors worry about the solvency of enterprises and demand higher risk compensation. Market volatility may push up interest rates and further increase financing costs. Facing more cautious investors, enterprises need to meet strict conditions such as higher credit rating and guarantee requirements when issuing bonds. In order to cope with potential risks, enterprises may prefer to issue short-term bonds, but this will increase the short-term debt repayment pressure.

### 3.2. Investment decision

The volatility of financial market directly affects the return on investment of enterprises. In a highly volatile market environment, investors face increased risks, so they expect higher returns to compensate for the extra risks. This trade-off between risk and return leads enterprises to consider the impact of potential market fluctuations on investment returns when making investment decisions.

The volatility of financial market increases the uncertainty of enterprise investment, thus improving the risk level. In a highly volatile market, enterprises may face greater capital cost fluctuation and cash flow uncertainty, which requires enterprises to adopt a more cautious attitude in financial decision-making to avoid potential financial risks.

The volatility of financial market also affects the investment strategy choice of enterprises. Different investors have different tolerance for volatility, so they will choose different investment strategies. For example, risk-averse investors may choose investment products with low volatility and stable returns, such as bonds; Investors with higher risk tolerance may choose high-volatility and high-yield investment products, such as stocks. The impact of volatility on investment time can not be ignored. Long-term investors are usually able to withstand high market volatility because they believe that the market is in a good trend for a long time [7]. Short-term investors need to pay more attention to the short-term fluctuations of the market in order to find investment opportunities in the market fluctuations.

### **3.3. Asset management**

The volatility of financial market intensifies the uncertainty of enterprise asset value and affects the valuation of financial assets and physical assets. For financial assets such as stocks and bonds, the prices may change sharply due to market fluctuations, which makes the traditional valuation method based on stable cash flow discount difficult to apply, and more complex models such as volatility-adjusted capital asset pricing model need to be adopted to evaluate. In terms of physical assets, interest rate fluctuations increase the financing cost and refinancing risk of fixed assets, which may lead to a decline in asset value revaluation. In order to meet these challenges, enterprises may reduce risks by adjusting their asset portfolios, such as reducing the allocation of high-risk financial assets and investing in more stable options, and delaying new fixed asset investment plans to avoid depreciation risks when the market is unstable.

The decline of asset value leads enterprises to face the risk of asset impairment, increase asset-liability ratio and improve financial leverage and risk; Volatility also increases the debt cost of enterprises. The fluctuation of bond market yield and loan interest rate forces enterprises to re-evaluate the debt structure and consider adjusting the debt maturity or repaying high-cost debts in advance. In terms of income statement, the fluctuation of financial market directly affects the investment income of enterprises, especially those enterprises that actively participate in foreign exchange and financial derivatives trading. The fluctuation of market price increases the uncertainty of income. Due to the rising cost of financing, the interest expenses of enterprises have increased, further reducing the profit margin.

The volatility of financial market significantly affects the financing ability of enterprises, especially in equity and debt financing. In a highly volatile environment, the stock market is weak and investors' confidence is declining, which leads to more difficulties for enterprises in equity financing. The price and quantity of new shares may both decline, and even IPO plans need to be postponed, which limits the equity refinancing channels for enterprises. In terms of debt financing, financial institutions have become more cautious. Interest rate fluctuations and changes in risk appetite have raised the threshold for enterprises to obtain debt financing, which may lead to the downgrade of corporate credit rating, making the issuance of loans or bonds more difficult and limited. Even if financing is successfully obtained, enterprises will have to bear higher costs and repayment pressure.

### **3.4. Risk management**

Financial market fluctuation refers to the irregular changes in the price of financial assets. This fluctuation brings many risks to enterprises, including market risk, interest rate risk and exchange rate risk.

#### **(1) Risk identification and assessment**

Under the fluctuation of financial market, enterprises must first accurately identify all kinds of risks. For example, an export-oriented enterprise needs to identify the potential impact of exchange rate risk on its profits when the exchange rate fluctuates frequently. Enterprises can evaluate the risk by analyzing historical data, market trends and macroeconomic indicators. If the risk matrix method is used, the possibility and influence degree of risks are quantitatively evaluated to determine which risks are the key risks that need to be dealt with first.

#### **(2) Risk diversification strategy**

Enterprises can spread risks through diversified investment. In terms of asset allocation, all funds are not concentrated in one financial asset or one industry. For example, an enterprise invests in both the stock market and the bond market, and its stock investment covers stocks of different industries. In this way, when an industry or an asset performs poorly due to financial market fluctuations, other assets may play a balancing role and reduce the risk of the overall investment portfolio of the enterprise.

For business operations, enterprises can also spread risks through diversified businesses. For example, a company that originally focused on traditional manufacturing began to set foot in the service industry. When financial market fluctuations affect manufacturing demand, service business may provide a stable source of income.

### **(3) Hedging strategy**

Enterprises can use financial derivatives to hedge. For enterprises facing exchange rate risk, they can use forward foreign exchange contracts, foreign exchange futures or foreign exchange options. If the enterprise expects to have a foreign currency income in the future and is worried about the loss caused by the falling exchange rate, it can lock in the exchange rate by selling forward foreign exchange contracts. Similarly, for enterprises facing interest rate risk, tools such as interest rate futures or interest rate swaps can be used. For example, if an enterprise plans to borrow money in the future and is worried that the rising interest rate will increase the borrowing cost, it can hedge through interest rate futures.

### **(4) Risk control and emergency plan**

Enterprises need to set risk tolerance, and make clear at what risk level they can accept and under what circumstances they need to take action. For example, an enterprise sets the maximum withdrawal rate of its portfolio as 10%. When the withdrawal rate approaches 10% due to market fluctuation, it is necessary to start risk control measures, such as reducing the positions of high-risk assets. Enterprises should make emergency plans. When there is sudden and large fluctuation in the financial market, enterprises can respond quickly. Enterprises can negotiate the flexibility of credit line with banks in advance, so as to get financial support in time when funds are tight.

## **4. Financial strategies for enterprises to cope with the volatility of financial markets**

Facing the volatility of the financial market, enterprises need to adopt flexible financial strategies to ensure their financial stability and sustainable development. This paper puts forward specific strategies from four aspects: capital structure adjustment, investment strategy selection, risk management and financial planning and budget adjustment.

### **4.1. Capital structure adjustment strategy**

Enterprises should flexibly adjust the ratio of debt to equity according to the volatility of financial markets. During the market boom, debt financing can be appropriately increased and the financing cost can be reduced by using the low interest rate environment; In the market recession, equity financing should be increased to reduce financial risks. By optimizing the capital structure, enterprises can maintain stable financial leverage in different market environments and enhance their solvency and risk resistance. Enterprises should actively expand financing channels, besides traditional bank loans and equity financing, they can also consider issuing bonds, introducing strategic investors and using asset securitization to raise funds. Diversified financing channels can reduce the dependence of enterprises on a single financing channel and improve the flexibility and stability of financing.

### **4.2. Investment strategy selection**

Enterprises should make flexible investment plans according to the volatility of financial markets. During the market boom, we can increase investment and expand business scope; In the market recession, we should invest carefully and keep cash to deal with potential risks. By flexibly adjusting investment plans, enterprises can seize opportunities and avoid risks in different market environments. Enterprises should build diversified investment portfolios and invest their funds in

different industries, regions and asset classes. Diversified portfolio can reduce the risk brought by a single investment and improve the stability and return rate of the overall investment.

### **4.3. Risk management strategy**

Enterprises can use financial derivatives such as futures and options to hedge the risks brought by market price fluctuations. For example, through hedging strategy, lock the price of raw materials or products and reduce market risks. Financial derivatives have leverage effect and flexibility, which can help enterprises to effectively manage risks at a lower cost. Enterprises should establish a sound risk early warning mechanism, monitor the dynamics and changes of financial markets in real time, and find potential risks in time. Through the risk early warning mechanism, enterprises can take countermeasures in advance to reduce the possibility and influence of risks.

### **4.4. Financial planning and budget adjustment strategy**

Enterprises should adopt the method of rolling forecast and adjust their financial planning and budget regularly according to the volatility of financial markets. Through rolling forecast, enterprises can find out the influence of market changes on financial situation in time, and adjust their budgets accordingly to ensure the realization of financial goals. Enterprises should maintain certain financial flexibility, such as keeping certain cash reserves and setting flexible credit policies, in order to cope with the uncertainty caused by financial market volatility. Financial flexibility can help enterprises quickly adjust their financial strategies, seize opportunities or cope with risks when the market fluctuates.

## **5. Conclusion**

In a highly volatile market environment, the attractiveness of stock issuance and bond issuance will both decline, leading to an increase in financing costs for enterprises. Enterprises need to adjust the issuance strategy to reduce the financing risk. Market volatility increases the uncertainty of investment, so enterprises need to choose investment strategies and projects more carefully to cope with potential financial risks. The volatility of financial market intensifies the uncertainty of asset value, so enterprises need to re-evaluate asset portfolio and take corresponding measures to reduce risks. Enterprises need to identify and evaluate various market risks, and adopt strategies such as risk diversification and hedging to manage these risks. Enterprises should adjust their financial plans and budgets regularly according to market volatility and maintain financial flexibility to cope with uncertainty. The fluctuation of financial market has many influences on enterprise's financial decision-making. Enterprises need to formulate flexible financial strategies to adapt to the constant changes of the market and ensure stable and sustainable financial development.

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