AN EXAMINATION OF COVID 19 EFFECT ON COLOMBO STOCK EXCHANGE

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ABSTRACT

This study examines the impact of the COVID-19 outbreak on the Colombo Stock Exchange. In this regard, the daily closing price of our sample stocks during the period of July 26, 2019 to June 30, 2021 was collected. Research has identified three main events of interest to represent the COVID-19 01 and 02 waves in Sri Lanka. Furthermore, research has examined whether vaccination trials have any significant impact on Colombo stock exchange performances. Our sample consists of companies listed in the S&P SL 20 blue-chip index in Sri Lanka. The impact of COVID-19 on stock returns was analyzed using the event study method by comparing the calculated abnormal return before and after the event day. The event study method is based on the celebrated finance theory Efficient Market Hypothesis, implying that security prices quickly absorb market-moving news and react accordingly.

Our abnormal returns revealed that the first positive case recorded on January 27, 2020, had no material impact on the security prices; however, the first confirmed positive case happened in the second phrase (05 October 2020) had a material impact on the security prices. Researcher further examined the abnormal returns around the kick-off day of the vaccination program in Sri Lanka, and this event had a material impact on the security prices.Furthermore, this study has identified that certain significant news disseminated through public media, such as the announcement of the Kandakadu cluster, the Peliyagoda Fish Market, and the Minuwangoda apparel company cluster, had a notable impact on security prices during our observation window.

However, this study witnessed that despite the negative sentiment prevailing in the market, positive abnormal returns were observed around the event dates. The cumulative abnormal returns around phases 01, 02, and the Vaccination phase were found to be not significant in this study, indicating the short-term nature of the COVID-19 pandemic. Researcher conducted descriptive static analysis pre- and post-COVID time periods and revealed that volatilities across the abnormal return and cumulative abnormal return were significantly increased during the COVID 19 period.

During COVID-19 phase one, the Colombo Stock Exchange remained closed continuously, and travel bans imposed on the country hindered active participation in capital market activities by investors. The researcher has identified these factors as key limitations of this study.

Keywords: Abnormal Return, COVID 19, Colombo Stock Exchange, Event Study

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S&P SL 20	Standard and poor Sri Lanka 20 Index
CSEALL Index	Colombo Stock Exchange All Share Index
CSE	Colombo Stock Exchange
CAR	Cumulative Abnormal Return
AR	Abnormal Return
Covid 19	Coronavirus Disease 2019
VIX	Volatility Index
IDH	Infectious Disease Hospital