

The Effect of Macroeconomic Variables on Stock Market Returns in Sri Lanka

Narayana, S.N.B.M.V.N.¹ and Thilakerathne, P.M.C.²

¹vindunarayana@gmail.com; ²lal@kln.ac.lk

Abstract

The stock market investment is one of many potential investment vehicles in which investors can invest their disposable income and reap the returns of its growth over a period of time. When investors value stocks, they mostly consider about the macroeconomic variables. This study investigates the effect of macroeconomic variables on the stock market returns in Sri Lanka. During the period from 2009 to 2019 macroeconomic factors were experienced unexpected changes due to national and international economic conditions. Even though, there are various researchers' investigated the impact of macroeconomic variables on the stock prices or stock returns, there were only a few researchers' investigated the relationship between macroeconomic factors and the stock market returns by considering above significant periodical changes. Therefore, this study investigates the effect of macroeconomic variables on stock returns. This study employs the multiple regression analysis by following (Balagobei, 2017); (Ilahi, Ali and Jamil, 2015). Selected macroeconomic variables are Inflation rate (INF), Interest rate (IN) and Exchange rate (EX). The stock market return was measured by using All Share Price Index based on monthly observations of listed companies selected for the study. This study will facilitate investor confidence, make optimal decisions when macroeconomic factors diverge in different time periods in the economy. Therefore, outcome of this research and subsequent policy recommendations may assist policy makers to prudently manage the macroeconomic forces to optimize the performance of Sri Lankan capital market in order to formulate of economic targets and policies.

Keywords: Colombo Stock Exchange Sri Lanka, Developing Economy, Investors, Macroeconomic Variables, Stock Market Returns