

Relationship Between Macro Economics Variables and Stock Market Performance: with Special Reference to Colombo Stock

R. M. K. Bandara¹ and W. D. J. D. Weerasinghe²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

rmkbandara19960605@gmail.com¹, damindaj@kln.ac.lk²

ABSTRACT

Introduction - There has been an extensive debate on the relationship between economic variables and stock market performance especially in the context of emerging markets. However, there is mix results obtained multiple times. The primary objective of this study is to examine the impact of macroeconomic variables on stock market performance with special reference to the Colombo Stock Exchange.

Design/Methodology/Approach - This research is based on secondary data. Exchange rate, Balance of Trade, Money Supply, and Inflation rate are categorized into macro-economic variables as independent variables and both ASPI and S&P SL20 index return are considered as dependent variables. Descriptive Statistics, Correlation Analysis, Multiple Linear Regression are the analysis tools used for data analysis.

Findings - All macroeconomic variables show a weak negative correlation with both ASPI and S&P SL20 returns. During the sample period, all variables indicate low volatility relating to correlation of variation and all independent variables show insignificant relationships other than the balance of trade with ASPI. Only M2b shows the insignificant relationship with S&P SL20 whilst other independent variables were significant with S&P SL 20 based on the analysis.

Conclusion – It is understood that most of the macro economic variables affect the changes in the stock market's performance. At the same time, it is suggested to direction of the relationship between macroeconomic variables and stock market performance as the further research areas.

Keywords: *ASPI, S&P SL20, Macroeconomic variables, Stock market returns, multiple regression analysis*