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The Relationship between Market Risk and Financial Performance: Evidence from Sri Lankan Public Listed Companies

Lakma, M.A.K.T.[1] and Sudasinghe, S.L.[2]
Department of Finance, University of Kelaniya, Sri Lanka[1,2]
kasunikawee@gmail.com[1], sandalis@kln.ac.lk[2]

ABSTRACT

Purpose: The main objective of the study was to identify how market risk affects the financial performance of Sri Lankan publicly listed companies.

Design/Methodology/Approach: The researcher chose a random sample of five sectors from the Colombo stock exchange. A maximum of fifteen companies were selected from the banking, food & beverage, material, capital goods, and diversified financial sectors based on the highest market capitalization. This study is based on the new sector classification (GICS) introduced by the Colombo Stock Exchange, effective January 1, 2020. The dependent variables are Return on Asset (ROA), Return on Equity (ROE), and Market Return while the Degree of Financial Leverage (DFL) has also been used as the control variable. The descriptive analysis, correlation, and regression analysis were carried out using the E-Views 08 software.

Findings: The findings of the research indicated that market risk significantly improves financial performance. Even though a few sectors have insignificant negative impacts and insignificant positive impacts, many of the companies exhibited that the market risk significantly positively impacts market return.

Originality: The research is beneficial to the investors to make investment decisions based on the sectors.

Keywords: *Market Risk, Beta Value, Return on Asset, Return on Equity, Market return, Degree of Financial Leverage*