Covid-19 Pandemic and Industry Group Performance of the Colombo Stock Exchange

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ABSTRACT

Introduction: This research study examines the impact of the lockdown announcement imposed by the government on the different leading industry groups of the CSE such as Health Care Equipment and Services, Banks, Energy, Capital Goods, Transportation, etc.

Design/Methodology/Approach: Event study methodology has been employed to analyze the data. Lockdown declaration day has been considered as the event date for this study. I have taken a 40-trading day event window, i.e., 20 trading days before and 20 trading days after the date of the announcement. Secondary data is used in the study and the same is collected from the CSE data library. Using MS-Excel, three models have applied for analysis—mean-adjusted, market-adjusted, and risk-adjusted abnormal return.

Findings: In the initial lockdown analysis, on the date of announcement, all the industries show negative abnormal returns under the mean adjusted abnormal return model. Three industry groups (Energy, consumer services and insurance) show positive impressive abnormal return at a significant level under the market adjusted abnormal return model.

Conclusion: Most of the sectors performed positively and gained abnormal returns after the announcement of lockdown. It showed that these sectors steeply recovery after falling down the market index. That is indicate that investors were confident that the impact was occur due to the abnormal situation of the market and not due to the fault or issue of these industries. Based on the findings, investors may decide to hold their investments in the stock market that has recovered during the period. This is the first study to analyze the impact of the announcement of lockdown due to Covid-19 on the industry group performance using the event study method in the context Colombo Stock Exchange.

Keywords: *Abnormal return, Event study, Industry group indices, Colombo stock exchange, Covid-19, Expected return*