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Empirical Study of Impact of COVID-19 on Indian Capital Market

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ABSTRACT: The global COVID-19 pandemic has emerged as a "black swan" event and will require extraordinary measures from governments across the globe to re-ensure economic stability. Globally, the pandemic has infected thousands of people in at least 190 countries and territories, according to the World Health Organization.1 As the immediate containment of the virus requires firm measures of quarantine and isolation, and this has disrupted world economy in an unprecedented way. The Organization for Economic Co-operation and Development (OECD) has halved the global gross domestic product (GDP) growth projection for 2020 due to the virus outbreak.2 Based on when the pandemic is likely to come under control, several economic scenarios indicate global recession of varying magnitudes. One far-reaching implication of the pandemic is that it is likely to change the world economic order. Economies that are able to "flatten the curve" in terms of containing the pandemic and showing resilience in resuming their consumption, manufacturing, and minimizing disruptions to their global supply chains are more likely to gain a larger share of the world GDP growth in the coming decade. The pandemic is expected to redistribute global wealth in terms of GDP growth and trade share. The situation has hit the Indian economy at a time when growth has slowed to the lowest in a decade. In the recent past, there were some signs of green shoots of recovery in the Indian economy. However, the impending outbreak of the virus is expected to severely delay the start of the recovery process.

Capital Markets across the globe are witnessing unprecedented volatility owing to fear of economic recession and uncertainty due to Covid 19. Global market indices like Korea, Thailand, Philippines, Indonesia, India and the US have hit the lower circuit on multiple occasions in the last one month despite governments announcing stimulus packages. The capital market regulators across the globe have responded differently to protect markets from intense volatility and speculation viz., ban on short-selling (Greece, Italy, Spain, France, Turkey) revisit and revise circuit breaker rules (Korea, Indonesia), shut trading floor and move to complete screen-based trading (NYSE), shorten trading hours and recalibrate circuit breaker (South Africa). In India, trading hours in commodity markets are reduced. Indian stock market is witnessing a significant spike in its volatility demonstrated by VIX index going up by approximately three times its normal level, markets being halted twice in March 2020 due to lower circuit filter. This piece of research work discussed possible impact and occurred with impacted empirically.

I. INTRODUCTION

Both retail and big investors are worried over the future of stock market. Volatility on exchanges were very high and stock market started to respond to COVID related announcements with knee jerk reactions. The question now is, "are these large cap top 50 stocks, good long-term buys?" .Some of the stocks are going through a weakening of prices due to structural or industry-specific issues; hence, it does make sense to avoid. Whereas, some of them are under pressure due to bulk selling by institutions.

It makes a valid case for retail investors who are looking at a long term investment for the period 3 years and above. Because the volatility is likely to continue amidst the Coronavirus outbreak at least till the time a medically approved vaccine or treatments comes to effect. "Though there is no guarantee that stock market will show further downside due to on-going covid- 19 issue and its impact on the economy, it is advisable that some caution is taken on the part of investors before making a buy or a sell decision. Positions in quality stocks can be made in a systematic manner keeping in view the risk profile of investor in order to avoid opportunity loss. Behavioral bias such as over confidence bias and herd behavior may be seen in this type of scenario.

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Markets are in a grip of risk aversion due to the spread of covid- 19 pandemic. Though the stocks have corrected significantly from their highs, the uncertainty involved in the markets has not abated given the escalation of new cases and causalities. In fact, at this point of time, market has regained some of the losses due to stimulus packages announced by various countries like US, European nations etc.

II. LITERATURE REVIEW

1. Martin Karlsson et al, in their study "The impact of the 1918 Spanish flu epidemic on economic performance in Sweden: An investigation into the consequences of an extraordinary mortality shock "studied the force of the 1918 flu virus on short- and medium-term financial show in Sweden. The endemic was one of the worst diseases in creature times past, but it has up till now established only limited notice in the financial prose – regardless of in place of a supreme manpower upset. In this article, the author's exhibit apparently exogenous difference in occurrence toll between Swedish regions to approximation the force of the epidemic. The epidemic lead to a important boost in bad livelihood rates. There is also confirmation that resources proceeds were unconstructively impacted by the epidemic.

2. I.D. Mills First in the paper "The 1918-1919 Influenza Pandemic— the Indian Experience" recognized ninety four influenza pandemics between 1175 and 1875 of which 15 were of virulent disease scope. From 1875 there have been supplementary epidemics in 1889-90, 1918-19, 1946, 1957-5/, 1968-70 and 1977.it makes the 1918-19 results of meticulous concern is not plainly its being as one of the succession, but the information measured to grade in admiration not only of complete but even of comparative death nor inferior than third and possibly still next ahead the revolve of huge pestilences. There was no pandemic of small pox or cholera, not even the typhus period of the previous nineteenth century, can compete with the flu of 1918-19 as agents of destruction.

3. M. I. Meltzer et al have predictable the likely effect of the after that flu pandemic in the United States in the paper

"The economic impact of pandemic influenza in the United States: priorities for intervention." They have also measured the financial crash of vaccine-based intervention. by death rates, hospitalization data, and outpatient visits, the measure was 89,000 to 207,000 deaths; 314,000 to 734,000 hospitalizations; 18 to 42 million outpatient visits; and 20 to 47 million added ailments. Patients at towering danger (15% of the population) would report for roughly 84% of all mortalities. The probable monetary brunt would be US$71.3 to $166.5 billion, without effect to trade and people. At a rate of $21 to one vaccine, the authors venture net investments to community if people in all grow old groups are vaccinated. At $62 per vaccine and at disgusting assault tariff of 25%, the authors estimate net impact if people not at elevated jeopardy for complications are vaccinated. Vaccinating 60% of the population would make the maximum fiscal profits but may not be potential within the time required for vaccine efficiency.

4. Guido Alfani in "The effects of plague on the distribution of property: Ivrea, Northern Italy 1630" discussed demographic impact of the pandemics of plague in premature contemporary Europe and their financial penalty light up the development of possessions structure and of affluence allocation throughout and following a humanity disaster. A psychoanalysis of the high-class information on hand for the Italian metropolis of Ivrea at the occasion of the 1630 plague show the outstanding pliability of possessions structure. Similar to the communal structure of the era, belongings structure is clever to get well rapidly, knowledgeable as they were by the instruction studied by trial and error by the aristocratic family of the not on time center Ages, whose patrimonies had been poorly injured by the Black passing away. In a epoch of regular catastrophe that strike European people through the aged Demographic rule, it seems that 'in egalitarian' organizations appear to have long-standing 'egalitarian' cause.

5. Lars Jonung et al in "The Macroeconomic Effects of a Pandemic in Europe - a Model-Based Assessment" tale the likely major financial consequence of a deadly disease captivating position in the EU in 2006, a periodical monetary replica. The macroeconomic outlay of a virulent disease, that is the price in stipulations of making lost owing to sickness and fatality calculated as decline in GDP increase and/or turn down in the point of GDP, are compute in a mixture of virulent disease picture. The authors spotlight on two sectors of the European economy that are anticipated to be chiefly harshly hit visiting the attractions and deal. The fallout are contrast with those get hold of in alike learn for the United States and Canada.

6. Barker, Lee Anna et al in their paper "THE EBOLA OUTBREAK: A TEST OF MARKET EFFICIENCY" discussed that Thomas Duncan turn out to be the first human being to be detect with Ebola in the United States. Two sickbay workers who treated him also became tainted with the

sickness, location off a countrywide attempt to hold the virus, and doubts of a bigger eruption. Human being crisis, such as that of Ebola, contain main effects on the financial system and capital market. The quick response to the deadly disease is as it is probable that the financial brunt will associate with the real increase of the infection, the result depend on the community retort. One means message economists and community healthcare experts have erudite from a lot of diverse outbreak such as the Chinese eruption of Severe Acute Respiratory Syndrome, the H1N1 influenza, and that of Swine Flu in Mexico in 2009 is that the roundabout expenses of community danger dislike can make far more financial injure than the straight price of healthcare spend and other repression expenses.

7. Yan Jiang et al, in "H7N9 not only endanger human health but also hit stock marketing" Studied association between every day reported H7N9 cases and share price index in China. Data on every day report H7N9 cases and share market sectorial index in February and March 2014 were composed. Novel communicable disease outbreak cause financial loss which is mirror in actions in share prices.

III. DISCUSSION: MAJOR IMPACTS

1.Global financial market volatility and repricing: Investors struggled to assess the rapidly evolving impact of the outbreak, despite unprecedented global policy actions. A sharp repricing took place across global financial markets with lower rated, less liquid asset classes facing the largest price adjustments. Investor flight towards the safest assets has been strong as valuations and investor appetite for riskier assets has all but vanished. The crisis has been accompanied by a sharp supply shock to oil prices, which has amplified price moves in some other asset markets.

2: Liquidity crunch across global financial markets: The capital markets- banking nexus accentuated capital flight and market moves in many EMDE markets. Firms and individuals, seeking liquidity, tapped any available credit lines in the banking system, thereby forcing banks to sell liquid securities and reduce trading limits, just as asset- management companies similarly attempted to sell assets to cover redemptions. Reduced asset valuations will also pose a significant challenge for other market participants, such as money market mutual funds, particularly for those where investments are marked to market. In addition, the significant volatility and decline in price transparency is also contributing to reduced investor confidence.

3: Capital outflows and currency depreciation versus the US dollar (USD): The surge in demand for US dollars to cover collateral positions precipitated a depreciation of most currencies versus USD. Driven by the global liquidity crunch and increased risk aversion, capital markets in EMDEs experienced capital outflows at unprecedented levels.

4: Low or no activity in some bond markets: The primary market for new bond issues has closed for many issuers, which is a key concern, especially for lower-rated sovereigns and private sector issuers. In this environment, private sector borrowers will increasingly rely on bank funding, which puts pressure on bank credit lines.

5: Large impact also in smaller, less developed capital markets: This has occurred mainly via the government bond market. Borrowers who have relied heavily on external borrowings are most vulnerable, especially those with less developed local currency bond markets.

IV. CONCLUSION

This paper studies the direct and spill-over effects of COVID-19 on stock markets. The development of the epidemic up to the date when this paper was written empirically.These findings contribute to the research in economic impacts of the pandemic by providing empirical evidence that COVID-19 has bidirectional spill-over effects on the Indian economy, capital markets and seven other countries that are affected by the outbreak. Admittedly, though, since there is no a pandemic mitigation period in the other countries yet while this paper is being written, this study merely provide a reference for the trend of capital markets when the COVID-19 pandemic subsides worldwide.

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