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COVID-19 Impacts on Indian Financial Markets

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***Abstract*: The COVID-19 pandemic had a remarkable impact on global financial markets around the world. It is a tragedy for advanced industrial world. The pandemic also disrupted the world supply chains. The era of globalization as we once knew it could come to an end due to the dawn of a new era being seen by the entire world. The world must re-evaluate how to pick up where it left off after COVID-19. The Industrial world also was impacted by COVID-19 Pandemic. The main objective of this paper is to give an overview of literature on effects of pandemic on financial markets in India. This paper analyses and identifies the numerous ways in which the pandemic affected financial markets, including direct effects on firm fundamentals, shifts in investor sentiment, and governmental and central bank policy responses. We also talk about how the pandemic would affect the liquidity, volatility, and efficiency of the financial markets. The study finishes by highlighting possible research areas on how pandemic affected financial markets.**

***Keywords*: Financial impact, globalization, liquidity, volatility.**

1. Introduction

The COVID-19 outbreak in late 2019 had a significant influence on the world economy and financial markets, which was unprecedented. The epidemic has significantly increased volatility, risk aversion, and uncertainty, which had an impact on how well various financial markets in India have performed. This paper aims to present a comprehensive study of the COVID-19 pandemic's effects on financial markets.

Before the pandemic, financial markets in India were going through a period of rapid growth and stability, driven by low interest rates and strong economic expansion. Bond yields were at historic lows, and equity markets were setting new records. This period of stability has been disturbed by the pandemic, which has caused a large rise in risk and uncertainty as well as a steep decline in economic activity.

Financial markets have been extraordinarily volatile since the start of the pandemic, with big fluctuations in asset prices and major shifts in market sentiment. Sharp drops and significant recoveries have been seen in the equity markets, while high yield changes have been seen in the bond markets. Currency values have changed significantly in the foreign exchange markets, and global supply chain disruptions have had an impact on commodity markets.

Multiple channels have been used to spread information on the pandemic's effects on financial markets. The pandemic's broad disruption of supply chains, company closures, and job losses have all been the most direct channels of influence on firms' fundamentals. Investment reactions to the developing pandemic scenario and the steps taken by governments and central banks to manage it have had a big impact on changes in investment sentiment. Financial markets have been significantly impacted by policy responses from governments and central banks, including fiscal and monetary stimulus initiatives.

Important issues regarding the effectiveness, stability, and resilience of financial markets in India have been brought up by the COVID-19 pandemic. In this essay, we investigate how the pandemic has affected the liquidity, volatility, and efficiency of the financial markets.

The study also offer relevant policy directions and identify topics for further study.

Bombay Stock Exchange: Bombay Stock Exchange is the oldest and largest stock market exchange in India. In addition to the NYSE (New York Stock Exchange), London Stock Exchange, NASDAQ, Shanghai Stock Exchange and Japan Exchange Group. BSE is one of the major exchanges in the world and includes more than 6000 firms. SENSEX, an index, measures the overall performance of the BSE of 30 of the top companies on the BSE comprised of 12 separate sector-specific indexes.

2. Literature Review

The COVID-19 epidemic had a major effect on financial markets not only in India but all across the world. From the beginning of the pandemic, the financial markets in India have experienced unheard-of volatility and unpredictability. We shall examine the effect of COVID-19 on the Indian financial markets in this review of the literature.

Financial markets: COVID-19 crisis effected both businesses and people, as well as the uncertainty it brought with it, resulted in the disruption of numerous financial markets.

The U.S. Treasury market was also stressed in March 2020. Both the corporate bond market and money market also experienced stress. Importantly, the financial markets quickly bounced back.

Stock market: The main indexes of the Indian stock market fell by almost 35% in a few of weeks during the early stages of the pandemic. Nevertheless, the market has now bounced back, surpassing pre-COVID levels. Researchers contend that the government's monetary and fiscal policies are to blame for the

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Indian stock market's resurgence.

Bond Market: During the pandemic, there was also a lot of volatility in the Indian bond market. The market was stabilized by the RBI's monetary policy actions, which included rate reduction, a liquidity infusion, and bond purchases. According to research, the pandemic's effects on the bond market were less severe than those on the equity market.

Commodity Market: During the epidemic, the Indian commodity market, which includes crude oil, gold, and silver, also experienced tremendous instability. Due to its status as a safe haven, gold prices increased as crude oil prices sank as demand fell.

3. Research Methodology

Analysis of the Indian Stock Market before and after COVID: Before COVID-19, demand for each essential trade in India increased by almost $2.16 trillion. The only stocks to show a stock mention increase in 2019 were eight to ten equities inside the monster covers. The Sensex would have returned less than zero (restricting suggestions) for the year 2019 if blue-chip associations like HDFC, HDFC Bank, Hindustan Unilever, TCS, Infosys, Kotak Bank, Reliance and ICICI Bank hadn't been there. But it's obvious that these companies were included in the Sensex. The NSE and the BSE exchanged at their greatest levels ever, reaching heights of and unreservedly, as a result of a first wave of recovery that occurred in the later part of 2020. At the time's morning, there were almost 3 affiliations that were scheduled to record IPOs

Table 1
A Comparative data of closing prices of stock market indices of National Stock Exchange (NSE)

	Mar-23	Mar-22	Mar-21	Mar-20	Mean	Standard Deviation	Coefficient of variation (%)
NIFTY 50	18,069	17,640	14,684	14,151	16,136	1735	11
NIFTY NEXT 50	40,091	42,784	34,714	33,514	37,776	3807	10
NIFTY 100	17,939	17,921	14,836	14,330	16,257	1683	10
NIFTY 200	9,434	9,376	7,698	7,427	8,484	926	11
NIFTY 500	15,278	15,201	12,358	11,923	13,690	1557	11
NIFTY MIDCAP 50	9,036	8,511	6,816	6,325	7,672	1130	15
NIFTY MIDCAP 100	32,148	30,911	24,016	22,800	27,469	4107	15
NIFTY SMALLCAP 100	9,729	10,855	8,273	7,950	9,202	1166	13
INDIA VIX	12	19	21	9	15	5	32
NIFTY MIDCAP 150	12,066	11,558	9,062	8,648	10,334	1497	14
NIFTY SMALLCAP 50	4,439	5,003	4,139	3,948	4,382	399	9
NIFTY SMALLCAP 250	9,494	9,859	7,052	6,768	8,293	1393	17
MIDSMALLCAP 400	11,145	10,945	8,343	7,976	9,602	1450	15
NIFTY 500	10,013	37,557	32,501	30,406	27,619	10492	38
NIFTY BANK	42,661	10,821	9,781	9,227	18,123	14179	78
NIFTY AUTO	13,345	17,577	15,395	14,601	15,230	1540	10
NIFTY FINANCIAL SERVICES	19,023	37,562	34,620	33,408	31,153	7164	23
NIFTY FMCG	48,186	35,423	26,532	25,293	33,859	9148	27
NIFTY IT	27,719	2,397	1,527	1,409	8,263	11239	136
NIFTY METAL	5,807	6,618	4,287	4,166	5,220	1034	20
NIFTY PHARMA	12,608	13,815	12,549	12,291	12,816	589	5
NIFTY PSU BANK	4,153	2,922	2,123	1,911	2,777	879	32
NIFTY PRIVATE BANK	21,478	18,980	17,399	16,262	18,530	1957	11
NIFTY REALTY	445	474	328	298	386	75	19
NIFTY DIVIDEND 50	3,981	3,792	3,081	2,975	3,457	436	13
NIFTY GROWTH 15	8,913	7,711	7,120	6,822	7,642	801	10
NIFTY50 VALUE 20	9,348	9,218	7,546	7,266	8,345	945	11
NIFTY50 TR 2X LEVERAGE	12,082	12,190	8,758	8,111	10,285	1865	18
NIFTY50 PR 2X LEVERAGE	8,632	8,924	6,561	6,075	7,548	1246	17
NIFTY50 TR 1X INVERSE	215	215	259	205	224	21	9
NIFTY50 PR 1X INVERSE	254	251	299	238	261	23	9
NIFTY COMMODITIES	5,823	6,221	4,589	4,423	5,264	773	15
NIFTY INDIA CONSUMPTION	7,592	7,031	5,939	5,790	6,588	752	11
NIFTY CPSE	3,106	2,685	1,776	1,677	2,311	604	26
NIFTY ENERGY	23,946	27,005	18,217	17,159	21,582	4058	19
NIFTY INFRASTRUCTURE	5,405	5,150	4,109	3,890	4,639	650	14
NIFTY100 LIQUID 15	4,557	4,648	3,606	3,410	4,055	553	14
NIFTY MIDCAP LIQUID 15	7,706	7,682	5,714	5,348	6,613	1089	16
NIFTY MNC	20,102	18,667	16,157	15,740	17,667	1797	10
NIFTY PSE	4,746	4,350	3,109	2,939	3,786	777	21
NIFTY SERVICES SECTOR	23,574	24,537	20,538	19,628	22,069	2041	9

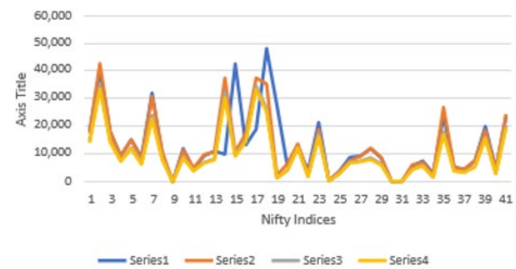

Fig. 1. A comparative analysis of closing prices of stock market indices of National Stock Exchange (NSE)

4. Findings

Due to the global economic slowdown in 2020, several firms encountered considerable difficulties. However, during this time the stock market unexpectedly rose. In reality, despite the challenges presented by a faltering economy, the bulk of stocks displayed an upward trend.

Additionally, in response to this trend, the National Stock Exchange (NSE) added new indexes to monitor the performance of several market sectors. This action aided investors in gaining a more accurate understanding of the state of the market as a whole and informing their investment choices.

An increase in people's investment habits was one of the factors that contributed to the stock market's increase during the lockdown. Many people had little choice but to invest their money online because they were confined to their houses. A rise in investment activity and an increase in trade volumes resulted from this change in behaviour.

Despite the pandemic's negative impacts on the economy, the increase in investment activity and the rise in the stock market served to somewhat offset these consequences. The stock market's durability throughout this period also demonstrated the influence of investor confidence and the market's flexibility in responding to shifting conditions.

5. Conclusion

The end of February, India began to see the effects of the virus. Due to the coronavirus fear, the Indian stock market saw a catastrophic meltdown on February 28th, wiping away more than Rs. 5 lakh crores in investor capital. The Indian financial market indices had a 3.5% decline, the second-largest decline in Sensex history. The Sensex fell more than 1900 points in one day on March 9, 2020. Although many businesses were having various issues during the shutdown, the market recovered after that and the majority of stocks increased. This is thought to be the biggest intraday fall since August 2015. The expanded investment practices of people and the widespread opening of new trading and De-mat accounts offset the unfavorable impact. The fact that no script's security has decreased over the past two years can be inferred incidentally from the analysis mentioned above, which shows that all scripts posted on NSE have improved. However, the majority of stocks have increased by 50% or more, and some have increased by a little margin, illustrating the varied effects of COVID on equities.

The study which was mentioned before demonstrates that the equities have strong positive correlations, indicating that the COVID 19 didn't have a significant impact on the stock market. This is one of several instances in which fear psychoses have been known to affect the stock market. However, the market swiftly bounced back because of positive company outcomes, substantial levels of FDI and domestic investment, high levels of liquidity brought on by global monetary stimulus, etc. India maintains its long-term development story by remaining a preferred investment option among peer emerging nations because of its strong fundamentals and the concern about global inflation.

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