

IMPACT OF RECENT MAJOR POLITICAL EVENTS ON STOCK MARKET PERFORMANCE: EVIDENCE FROM COLOMBO STOCK MARKET

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1. Introduction

Political events can have short-term and long-term impacts on the stock market. Since gaining independence from the United Kingdom in 1948, Sri Lanka has faced its most severe economic crisis, marked by the government's poor economic management, resulting in daily power outages, high inflation, and shortages of fuel and gas. These economic challenges led to widespread protests in Sri Lanka in 2022. As a consequence of this economic crisis, a slew of political incidents unfolded, exacerbating the challenges faced by the nation. This study aims to analyze the impact of the country's major recent political events on the Colombo stock market in the context of the financial crisis.

2. Research Methodology

This study is based on the Secondary data collection method. Daily ASPI data collected from the CSE data library was used for this study. The samples were selected based on the purposive sampling technique. The market's reaction was predicted using a 31-day event window. The research centered on analyzing Cumulative abnormal returns of market indices using the Event-study methodology, and it employed Time Series. Including a time series model in the event study methodology can significantly enhance the credibility of the information being analyzed.

3. Findings and Discussion

Based on the CAR and AR, the Colombo stock market experienced a significant decline in response to the Civil Uprising. Based on CAR, the overall stock market reacted quite significantly negatively to the prime Ministerial Transition, while AR showed a Significant positive reaction. However, the Colombo stock market showed a significant upward response of both AR and CAR during the Presidential Transition.

4. Conclusion and Implications

The study's findings highlight the substantial influence of political events on the Colombo stock market. It underscores the critical role of political stability and clear policy communication in ensuring a robust and flourishing stock market. Moreover, it reveals that market participants react differently to distinct political events: they exhibit negative responses to civil uprisings and Prime minister transitions but a positive response to presidential transitions. Studying the market and political events logically and making successful strategic decisions is possible. The researcher believes that this study will be used to make such decisions. In times of political instability, it is wise to invest in low-risk markets.

Keywords: Event Study, Political Events, Abnormal Returns, Time Series.