EFFECT OF STRUCTURAL BREAKS ON STOCK MARKET PERFORMANCE DURING COVID - 19 PERIOD IN SRI LANKA

Walakumbura, S.H.M.L. [1]*, Weerasinghe, W.M.S.P.[2] and Peiris, T.U.I. [3]

[1,2,3]*Department of Accountancy and Finance, Faculty of Management Studies, Sabaragamuwa University of Sri Lanka, Belihuloya, Sri Lanka*

lakminiwalakumbura2@gmail.com

This study investigates the effects of structural breaks on the performance of the Colombo Stock Exchange (CSE) over the COVID-19 period, which spans from December 1, 2019, to June 30, 2021. Stock market returns and volatility are used to proxy the stock market performance. Structural breaks were identified by using the Bai-Perron (2003) test. An ARMA (p,q) model fitted for stock returns was augmented using dummy variables for the structural breaks to measure the effect of structural breaks on stock market returns. The model was further extended as a volatility regression model (GARCH, EGARCH, or TGARCH) to measure the effect of structural breaks on stock market volatility. The results confirmed the presence of structural breaks following COVID-19-related news in CSE. Seventeen such breaks were identified; however, only three significantly influenced the stock market returns and the volatility. As a result, the study's consequences affect stockbrokers, multinational organizations, portfolio managers, and investors, giving them the ability to foresee market patterns and take preventative action in the event of structural breaks. Additionally, these insights can help regulatory organizations and policymakers create the best strategies and policies for navigating Sri Lanka's stock market environment.

Keywords: *All share price index, structural breaks, stock market return, stock market volatility*