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IMPACT OF COVID-19 ON STOCK EXCHANGE OF INDIA

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Abstract

The present paper explains about the crashing of the global market economy, major drop in oil prices, and increasing unemployment are some of the impacts of the pandemic COVID-19 that affected almost all countries in the world. India was also not far behind to get the impact of COVID-19 on their economic growth, development, economy and stock market. India has a robust stock market that reacts and responds well to the global situation.

Keywords: Stock Exchange, COVID-19, Global Market, Indian Economy, Market.

Introduction

The Indian economy is confronting serious downturn due to the nationwide lockdown imposed by the government on 25 March, confining activities of 1.3 billion individuals ie biggest across the globe. With COVID-19 spreading quickly in India, policymakers are stressed over how to battle the infection and limit its effect on the economy. There are no simple answers. Notwithstanding containing the spread of the infection and bolster the individuals who are affected, policymakers are facing tough challenges in getting things back to normal and also preparing for the implications that may emerge once the emergency is finished (and it will in the end be). [1]

A couple of listed stocks tell the story of the mayhem in the Indian stock market, currently in the grip of a global pandemic. Last October, the IPO of the state-owned monopoly, Indian Railway Catering and Tourism Corporation (IRCTC), listed at twice its offer price of Rs 320. By February-end 2020, it peaked to almost Rs 2,000. But by March 17, it tumbled nearly 50 per cent. Recently, investors expected SBI Cards and Payment Services to list at a premium to its offer price of Rs 750. It didn't. On March 16, it closed its first day with a loss of 9 per cent. [2, 3]

This is true for most global stock markets. The average fall in each is within the 25-30 per cent range in the past few weeks. The same is the case with the Sensex, which fell from a peak of 42,000 points this January 17 to below 32,000 in three months. In the past two weeks, the New York Stock Exchange halted trading on several occasions. It witnessed the largest single-day fall during this period. A daily fall of 2,000-3,000 points in several global indices seems a routine affair. [4] The regulators have no clue about what to do.

Amid the corona virus pandemic, several countries across the world resorted to lockdowns to "flatten the curve" of the infection that meant confining millions of citizens to their homes, shutting down businesses and ceasing almost all economic activity. According to the International Monetary Fund (IMF), the global economy is expected to shrink by over 3 per cent in 2020.

This spooked investors like this South Mumbai-based active trader who doesn't wish to be identified. In the past few years, his portfolio showed sizeable gains. But due to the current hyper volatility, over the past 15 trading sessions (until March 16), the tide has turned for him. He is on the verge of losing his initial capital. "The regulators failed to understand the impact of machine-based selling, a strategy adopted by foreign portfolio investors. This proved to be the death knell for smaller investors like me," he explains.

When WHO declared COVID-19 a pandemic, the financial markets, as well as other asset categories such as real estate, commodities, crude oil, and bullion, it is the rare, completely unexpected, Black Swan event, whose impact may be deeper and longer than what was estimated a few weeks ago. As more Western nations, and others like India, declare economic shutdowns and travel restrictions, the worst may still be in the future. The short-term disruptions are likely to be severe. [5]

Effect of Pandemic COVID -19 on Business Growth

The world has entered a new era of pandemic risk. We're responding with strength.

COVID-19

- The outbreak of COVID-19 highlights cracks in global trust, the pitfalls of global interdependency and the challenge for global governance.
- Epidemics are both a standalone business risk and an amplifier of existing trends and vulnerabilities.

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- Businesses that invest in strategic, operational and financial resilience emerging global risks will be better positioned to respond and recover.

Pandemics top national risk-management frameworks in many countries. For example, pandemic influenza tops the natural hazards matrix of the UK National Risk Register, and emerging infectious diseases are tagged as of considerable concern. Seen as a medical problem, each outbreak of a potentially dangerous infection prompts authorities to ask a rational set of questions and dust off the menu of response options that can be implemented as needed in a phased manner.

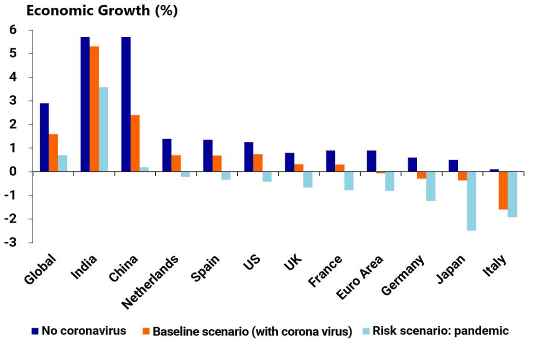
Reality, however, is generally more disruptive, as national governments and supranational agencies balance health security, economic and social imperatives on the back of imperfect and evolving intelligence. It's a governance challenge that may result in long-term consequences for communities and businesses. On top of this, they also need to accommodate human behaviour.

Management Dilemmas and Falling Trust

The coronavirus disease 2019 (COVID-19) is no exception. The disease - an epidemic that could become a global pandemic - emerged in a densely populated manufacturing and transport hub in central China and has since spread to 29 other countries and regions (as of 20 February 2020), carried along by Chinese New Year and international travel.[7,8]

In contrast to the Western Africa Ebola emergency of 2013-2016 – more deadly but less contagious, arguably more isolated, and eventually contained in part by richer countries putting money into Africa – COVID-19 presents larger, more interdependent economies with management dilemmas. It has also surfaced at a time of eroding trust within and between countries national leadership under pressure from growing societal unrest and economic confrontations between major powers.

Global Economic Impact Of COVID-19



Effective governance of cross-border crises such as pandemics involves preparedness, response and recovery at local, national and international levels. Epidemic preparedness assessment shows many countries, especially in regions where new pathogens might emerge, are not well equipped to detect report and respond to outbreaks. [9]

Divergence Between Economic Fundamentals and Market Movement

The market is pricing in flows from FPIs (foreign portfolio investments) due to increase in India's weight in the MSCI and FTSE Index. The market is factoring in that fiscal and monetary stimulus announced by the government and the Reserve Bank of India will work in restricting India's FY21 GDP growth to about – 5%, but will lay the foundation for a strong rebound in FY22 GDP growth. Most importantly, the market is pricing in the resumption of normal economic activities, with a medical solution to the Covid-19 pandemic around the corner. If the actual scenario in coming days is better than what is priced by the market, the index can rise from here. If the actual scenario is worse than what is priced by the market, the index will fall from the current level.

In the long term, economic fundamentals drive the market. While we see Nifty at 10,302 as on June 30, 2020, the top 15 stocks are trading at a level of 13,890, and the bottom 35 are trading at a level of 7,498. This sharp polarisation is reflecting the market's belief that the top 15 companies are safe to invest, whereas the bottom 35 companies mirror the scare in the market and the pain of the Covid-19 disruption.

Conclusion

As the world economy braces through the coronavirus pandemic, the Indian online broking industry seems to stand on solid ground, for now as the crisis has come as a blessing in disguise for companies with the number of clients, orders witnessing an between March and May.

Many people have opened new DEMAT accounts to venture into the business of investing and trading during the lockdown period and as a result, there has been an increase by 30-35 per cent in trading volumes and a surge for opening new accounts as well.

Economic slowdown, risk in business, job layoffs and paycuts have pinched the common man's wallet and many have taken to plunging their savings into the business of investing, in search of an alternate source of income.

The novice investors are learning the ropes of the trade from online stock market tutors while those who don't have any knowledge in stock markets are investing with the help of brokers who assist them with research reports.

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