COVID-19’s IMPACT ON INDIAN FINANCIAL MARKET

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Abstract: This study analyses the impacts of the COVID-19 pandemic on the Indian Stock Exchange in the initial months. Inclusive investigation suggests that the fears of coronavirus effect on the global economy have rocked markets worldwide, with stock prices plunging. The Indian stocks were eventually „back in the red‟ despite various stimulus packages announced by the Fed and RBI. It further describes why COVID-19 is not the only reason for the recent stock market crash and suggests that falling stock markets might not be the only reason for a possible global recession as the real challenge this time is the interaction of supply shock with a substantial fall in spending by consumers and businesses, i.e., demand shock which will produce a deeper and a more lasting recession.

Key words: COVID-19, Financial market, Stock Price

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I. INTRODUCTION

It all started on December 2019 when the first case of what is now termed as „COVID-19" was confirmed in China. Following the report, around 1 to 5 new cases were reported every day and by December 15, the number of infections reached 27. The case count reached 60 by December 20 and the numbers have only grown since then. What is troublesome about the entire situation is that in less than three months, the disease has turned into an outbreak with new cases being reported almost every day in every continent except Antarctica. As of April 6, total count was 1,315,989 with 72,715 deaths recorded globally. One of the direct impacts of the pandemic (declared by WHO on March 11, 2020) is the severe loss of lives but one aspect which cannot be overlooked is the threat this outbreak has caused on the global economy and financial markets. Globally, almost every sector from airlines, automobiles, leisure, and hospitality to manufacturing and constructions has been severely hit by the outbreak. The fears of coronavirus impact on the global economy have rocked markets worldwide, with stock prices and bond yields plunging.

II. IMPACT ON NYSE

The entire stock market runs on predictions. On February 19, stocks closed at an all- time high as investors ignored the fears that the sudden outbreak of coronavirus could turn into a pandemic. Before this the investors were cheering on the 12-year bullishness of the market but by the end of February, US stocks tanked the most since the 2008 Financial Crisis as coronavirus fears caught up with investors. The market began falling even further, when new cases in Italy, Spain, Iran, and South Korea were confirmed. S&P 500 saw the highest fall since 2008 spurring discussions around the fact that investors all over the world had underestimated the effects of the virus. March 9, 2020 is now referred as Black Monday as Wall Street suffered a real crash since 2008 crisis. The shares dropped by 7% within 5 minutes, right after the market opened, which lead to a circuit breaker i.e., a rare incident in which there is a halt in trading for 15 minutes straight. The severity of the crisis could be well anticipated after this event. As soon as the first case in California was confirmed, indexes dropped by 10%. Stock prices by the time were down by 20% which means that we were now trading in a bear market. The Fed's immediate reaction of cutting target interest rate by half percentage points failed to comfort the

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US financial markets as it continues to fall to this day. On March 24, Fed declared an unlimited bond purchase to prevent the US economy from falling into depression. This move will facilitate the investors who are lagging their target weight to equity to rebalance their portfolios by selling off bonds at higher price and purchasing stocks at a comparatively lower price and get back to their targets. However, on 27 March 2020 DJIA closed at 21,946.93 i.e. a 2.68% fall from the previous day. Because of Fed's stimuli, the US stocks have bounced more than 17% in the fourth week of March however the situation remains uncertain.

What has been the response in India?

The story takes a different turn in India. India remained somewhat distant from the outbreak for almost two months since its emergence. Several overseas investors have poured a total of $3.4 billion into Indian stocks in 2020. It could easily be said that Indian stocks were resilient from others. But just like every other nation, stocks started tumbling by high points due to uncertainty revolving around the pandemic. The already battling economy faced a new scare causing high volatility in the stock markets, negatively impacting the investors. Because of massive selloffs, several promoters of NIFTY 50 companies increased their own shareholdings. The following table shows the data:

Table no 1: Shows increase in own shareholding by top companies in NIFTY 50 since March 1

Companies	No. of shares acquired	Increase in stocks
Tata Steel	15,535,037	1.35
JSW Steel	8,252,700	0.32
HCL Tech	6,150,000	0.23
Adani Ports & SEZ	4,173,682	0.21
Bajaj Auto	384,000	0.13
Sun Pharma	2,479,154	0.10
Bajaj Finance	316,300	0.10
Axis Bank	224,172	0.10

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Tata Motors	26,722,401	0.09
Bajaj Finserv	145,400	0.09
Grasim	550,000	0.08
Maruti Suzuki	211,000	0.07

On the other hand, it is also believed that the current market fall can be the best opportunity for investors to buy stocks who plan to keep them for a longer period. However, trading in the equity market was halted for an hour on 13th March,2020 and on 23rd March 2020 for 45 minutes after BSE Sensex hit its 10% lower circuit level. Over the last month, several sectors like banking, automobile, IT, and media have been severely hit in the stock market. The following figure shows the stock market figures in India (sector-wise index) after-market closure on 27th March:

Index	Current	Change	%change
NIFTY BANK	18,952.90	-1,016.10	-5.09%
NIFTY AUTO	4,653.10	-285.60	-5.78%
NIFTY FIN SERVICE	9,131.60	-622.70	-6.38%
NIFTY FMCG	26,014.75	274.30	1.07%
NIFTY IT	12,427.55	-141.55	-1.13%
NIFTY MEDIA	1,025.35	-30.05	-2.85%
NIFTY METAL	1,503.85	-51.00	-3.28%
NIFTY PHARMA	6,948.40	135.35	1.99%
NIFTY PSU BANK	1,299.55	-40.10	-2.99%
NIFTY PVT BANK	10,160.50	-577.65	-5.38%
NIFTY REALTY	175.50	-9.55	-5.16%

Source: Economic times

Indian Investor's response to initial Stimulus Packages

US announced a massive economic stimulus bill on March 25 to cope up with the fallout of coronavirus after which there was a rise in stock prices for about four days in India. NIFTY and Sensex saw their best session since May 2009. Nifty closed 6.62% higher at 8,317.85 on the first day of national lockdown while it closed on 3.21% higher at 8,584.45 on the second

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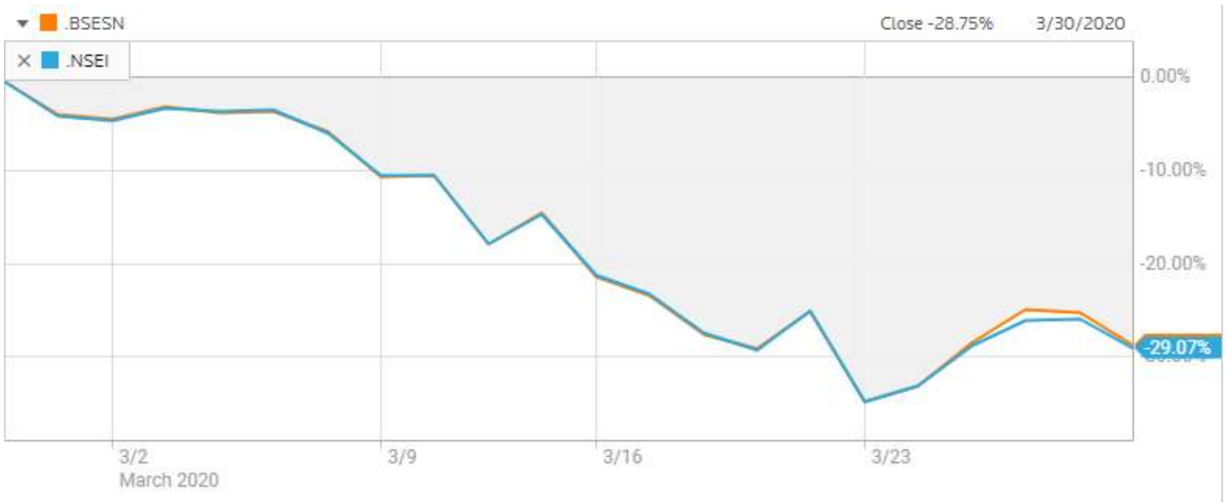
day. Another reason why market performed well after the passing of economic relief bill was that Indian investors were anticipating the announcement of a similar fiscal stimulus package by the RBI. The announcement of $22.6 billion relief package by the government which focused mainly on direct cash transfers and food security measures for the poor did not go well with the investors. The NSE NIFTY50 which was up by nearly 5% as Finance Minister began addressing the media pulled back soon afterwards. While this move was the need of the hour, many investors were expecting specific measures to boost the corporate, micro, small and medium business enterprises, and stock markets, non-addressal of which led to the plunge.

Indian stocks were back in the red despite central bank's decision to cut rates (repo rate cut by
75 basis points at 4.40%) for providing a boost to the economy on the third day of national lockdown. Thus, in the last week of March the index recorded its sixth straight week of declines amid historic selloffs over the global market. The following graph shows market response of Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) to the rapidly spreading disease in the month of March:



Source: Reuters

IS COVID-19 THE ONLY REASON FOR STOCK MARKET CRASH?

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On March 9, the stock markets all over the world experienced the worst crash in history- termed „**Black Monday**". While it is speculated that the negative headlines about the uncertainty associated with the novel coronavirus is the sole reason why markets across the globe are crashing, but the question remains- Is it the only reason for the recent stock market crash? The answer is undoubtedly a „No". Although it is true that an abrupt outbreak of the virus has led to a sudden halt of economic activity all over the world, with people practicing quarantine amid the lockdown but fears surrounding coronavirus is not the only reason for the turmoil.

Russia-Saudi Arabia oil price war

Wall Street falling by 7 percent, forcing a trading stop shortly after open on Monday. However, it must be noted that there is no correlation between oil prices and stocks in the medium run.

WILL FALLING MARKETS CAUSE RECESSION?

Historically, we have seen how a stock market crash can lead to global recession. Stocks are a valuable source of cash that corporations use to manage and grow their businesses. If stock prices fall dramatically, corporations have less ability to grow. Firms that don't produce will eventually lay off workers to stay solvent. As workers are laid off, they spend less. A drop in demand means less revenue. That means more layoffs. The decline continues and economy contracts, creating a recession. In the past, stock market crashes preceded The Great Depression, the 2001 Recession and the 2008 Global Recession. Although the stock market suffered a ginormous shock this time, the situation is in no way similar to the past shocks which led to The Great Depression, the 2001 Recession or the 2008 Financial Crisis.

We must not forget the fact that history can only provide us with guidance and not answers. By definition, a recession must last at least six months, where a bull or bear market could only last a few days. It is also worth mentioning that there isn't necessarily a proven correlation between the severities of recession from GDP standpoint and the drawdown in the stock market. For example, during the financial crisis and great recession, annualized GDP growth was -5.1% despite a total drawdown in the stock market of over 50%. So, while we could say that a falling market could be one of the causes of a global recession (the only thing

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that is certain to occur), the consequences this time are going to be even more severe than any other global recession experienced previously. The real challenge this time is that a temporary shock in production i.e., a supply shock will interact with rising infection rates, falling stock prices, and the widespread adoption of emergency restrictions on international travel and internal movements leading to substantial fall in spending by consumers and businesses i.e., a demand shock to produce a more profound and lasting downturn.

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