

Assessing the Impact of Pandemic on the Portfolio Construction in Indian Stock Market - A Sharpe's Index Approach¹

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Abstract

Global markets experienced previously unheard-of financial distress as a result of the COVID-19 outbreak, which also revealed weaknesses in economic systems and undermined investor confidence globally. This study examines the impact of the COVID-19 pandemic on the Indian stock market with the objective of guiding investors toward optimal portfolio decisions. In order to create an effective and diversified portfolio, the research evaluates the risk-return trade-off using Sharpe's Single Index Model as the primary analytical framework. The empirical analysis covers 25 companies selected from five key sectors-Automobile, Banking, FMCG, IT, and Pharmaceuticals-that significantly contribute to India's GDP. Stock data from two different time periods-pre-pandemic (January-December 2019) and post-pandemic (January-December 2021)-are used in an event study technique. To create the ideal portfolio, Stocks are sorted according to the cut-off point, beta values, and for ideal portfolio.

JEL Code : G11; C58; G01; E44

Keywords : Investment Decision; Stock Market; Beta; Risk; Excess Return; Sharpe Index; Portfolio; India

I. Introduction

THE UNPRECEDENTED COVID-19 outbreak has created global uncertainty. This worldwide recessionary tendency necessitates wise financial actions, both preventive and corrective, to ensure an individual's and the economy's overall financial health. The global economic collapse has led to severe inflationary pressures and liquidity constraints. As a result,

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In conclusion, this research's societal significance is found in its capacity to close the gap between investing theory and workable, real-world strategies for surviving difficult economic times, which benefits both individual investors and the economy as a whole. This study offers insightful information about how COVID-19 affected market dynamics, helping investors build portfolios that more successfully strike a balance between risk and reward. Through a comprehension of the causal relationship between the pandemic and sector performance, investors can enhance the quality of their portfolio optimization decisions by making more informed judgments. The study provides a useful framework for sensible investment decision-making in the face of persistent economic uncertainty and highlights the significance of adjusting investment plans to changing market conditions and sector-specific trends. This paper provides useful insights from a social perspective that enable institutional and individual investors to handle upcoming economic shocks. It offers useful information on how, even during difficult times, prudent sectoral allocations can reduce risks and increase long-term value.

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