



## Impact of Macroeconomic Variables on Stock Returns of Major Industry Sectors in Sri Lanka

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### Abstract

This research study was conducted to identify the impact of macroeconomic variables ; Average Weighted Lending Rate (AWLR), Inflation (inf), Exchange Rate ( Exc\_r), Factory Industry Production Index (FIPI) and Credit to the Public Corporations (Cre\_pub) on the stock returns of major industry sectors of Sri Lanka. Study has been conducted as a cross sectional study among 5 major industry groups namely Industry sector, Material sector, Real Estate sector, Consumer Discretionary sector and Consumer Staples sector. Monthly data has been collected from 2013 January to 2022 December for 70 companies as 14 companies for each sector. Data has been analyzed through e-views. Panel least square analysis is suggesting that inflation, exchange rate and average weighted lending rates are showing a negative significant impact on the overall stock return. Separate analysis for separate sectors has been conducted and the results are suggesting that, FIPI factor is having a positive significant impact on all 4 sectors except the real estate sector. Further results are indicating that, even though the inflation could have negative impact on material, industry and consumer discretionary industries, it is having a positive significant impact on the consumer staples sector due to the lower price elasticity of consumer staple goods. Real estate sector is having positive significant impact on the stock return from Inflation and AWLR. Credit to the corporations is showing an insignificant impact on stock returns of all sectors, due to the balanced level of benefits and disadvantages of higher level of debts. Based on the results, potential investors could take their investment decisions appropriately to invest their money in the stocks of different sector companies based on the macro- economic conditions and reliable predictions.

**Keywords:** Average Weighted Lending Rate, Credit to the Public Corporations, Exchange Rate, Factory Industry Production Index, Inflation, Stock Returns.