IMPACT OF EXCHANGE RATE FLUCTUATION ON STOCK RETURNS; EVIDENCE FROM COLOMBO STOCK EXCHANGE

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The study aims to empirically examine the impact of exchange rate volatility on stock market return volatility from an emerging market's perspective. A secondary data analysis has been adopted by exploiting the daily time series data for All Share Price Index (ASPI) returns of Colombo Stock Exchange (CSE) and exchange rates over the period of seven years from January, 2014 to December, 2020. Further, the study employs the Generalized Autoregressive Conditional Heteroscedasticity (GARCH) estimation model in order to examine the impact of exchange rate volatility on stock market return. The empirical results of the study demonstrate that the volatility of Euro, Japan Yen and US Dollars exchange rates has a positive and significant impact on ASPI return. Overall, the findings of the study highlight that the exchange rate volatility is considered as one of the determinant of stock market return volatility. The findings from this research could provide relevant insights to the Sri Lankan listed companies in identifying the relative importance of exchange rates on their firms' stock return volatility.

Keywords: *Exchange rate; Generalized Auto Regressive Conditional Heteroscedasticity (GARCH); Stock return*