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MARKET RISK PREMIUMS IN BIST 100 IN THE COVID ERA

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ABSTRACT

Purpose- Capital Asset Pricing Model (CAPM) is the most widely used and popular method in analysis of investment projects, stock valuation, firm valuation, mergers and acquisitions, initial public offerings and secondary public offerings. The determination of market risk premium is one of the most important inputs in the application of this model. The determination of market risk premium for the Turkish market has not deeply studied in the literature so far. This study intends to calculate the market risk premium for the Turkish Stock Market with a special emphasis on the Covid-19 era.
Methodology- The monthly data from the Reuters Database are collected for the BIST100 and 17 different sectoral indexes for the years of 2019 and 2020. Moreover, the monthly average short term interest rates on the Turkish Treasury Bonds are obtained from the database of Central Bank of Turkey for the years of 2019 and 2020. Based upon the historical observations, the market risk premium is defined as the difference in between the market index returns (BIST100 and 17 sectoral indexes) and the average short term interest rates on monthly basis.
Findings- The market risk premiums measured on BIST100 index are about 10% in 2019 and 20% in 2020. The market risk premium is doubled in the Covid era. The volatilities of BIST100 index are 7.86% in 2019 and 8.15% in 2020. The volatility of market risk premiums are also significantly increased in the Covid era.
Conclusion- Covid era has significantly increased the market risk premiums and volatilities of the Turkish market. The results of this study may be used as a reference study for local and international financial institutions, valuation industry and trade firms and academics for an approximation of market risk premium in the Covid era.

Keywords: Market risk premium, BIST100, sectoral market risk premiums, volatility.
JEL Codes: C58, G14, L93, E44

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