

Comparative Analysis of Impact on the Indian stock market due to the various waves of the COVID-19 Pandemic

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1. Introduction:

1.1. The motive of this study

COVID-19 pandemic that emerged during the beginning of 2020 was the ultimate Black Swan that ravaged the business-as-usual in the global economy. The pandemic itself, unlike an average financial crisis, driven by local credit booms, institutional malfunctions or geo-political uncertainties, was a biological, exogenous shock, which forced the global economy, that emphatically demanded the whitening and economic lockdown. India has an interesting episode as part of the developing world. It is one of the fastest-growing large economies - a sudden and country-wide lockdown in March 2020 resulted in an immediate liquidity crisis coupled with severe supply chain disruptions, and heavy financial market pessimism in its stock market. The Indian share market which is usually reflected from the benchmark indices of the BSE SENSEX and NSE NIFTY, was found to be the reflection of the social-economic woe of the situation showing record-breaking volatility and draw-down.

1.2. The Phenomenon of the Waves and Market Decoupling

As the pandemic grew, the sequential and biological phases evolved and were termed as the wave, which was accompanied with the emergence of the virus variant, the government response and the social consequences.

The First Wave (Early to Mid-2020): This was the period of stringent national lockdowns with fear of the unknown, although it was a time of novelty.

The Second Wave (Spring 2021): The Second Wave was a biologically and socially devastating period, pushing the health care system in the country to the verge and causing a high mortality.

The Third Wave (Winter 2021/2022): This was the stage of high transmissibility, low clinical severity (Omicron variant) and severe nationwide vaccination drive.

Economically the progression of these waves posed a major conundrum. Common sense about financial markets would have shown that the health crisis would have been reflected in the financial markets by creating the most significant collapse when the pandemics' death rate and the strain on the health system were the highest (the second wave). However, the Indian stock markets didn't obey the law. Rather than the markets following the trajectory of the number of infections and casualties, there was a shocking decoupling of the markets. The first wave led to irrationalisation and mass selling, the major followed by even worse waves received with strong investor confidence, sectoral bullish rallies, and the overall bull run.

1.3. Literature Review, The purpose and Summary

The answer to understandable this conundrum is through an in-depth study of the investor sentiment, macroeconomic policy, and the industry flexibility. The aim of this literature review is to analyse and synthesise the existing academic research on the impact of the different waves of COVID-19 in the Indian stock market relative to each other.

Specifically, we will consider:

Behavioural finance: How and why did the investor behaviour change from being herd-like in the first wave to having more rational and anticipatory responses at the second and third waves?

Cross-sectoral Differences: The winners and losers brought by the pandemic and how sectors including pharmaceuticals, information technology, manufacturing and other sectors navigated their way through the rise and fall of the pandemic.

Macroeconomic Buffeting: The role of the Reserve Bank of India (RBI) and the Ministry of Finance which focused on the way monetary policy and the fiscal packages buffered financial markets vis-à-vis the economy.

This review should provide a comprehensive view of how the Indian stock markets dealt with uncertainties, pricing models for risk, and provided an effective crisis management protocol in response to the ever-evolving COVID crisis.

2 Literature Review:

The COVID-19 pandemic has been one of the most significant shocks to global, and India's financial markets, bringing about significant volatility, unusual returns and shifts in investor behaviours. There has been a substantial amount of empirical literature examined the reaction of the India's financial markets in particular the response of the "Bombay Stock Exchange (BSE) Sensex" and the indices of the "National Stock Exchange (NSE)" (e.g., Nifty 50).

Some of these show substantial negative effects of COVID-19 on stock returns in India.

For COVID-19 outbreak in India literature, event study approach has been used. They used an event study approach on the Nifty 50 index just before the beginning of the first wave of COVID-19 to study investor reaction towards the uncertainty related to the spread of this virus. Their study concluded that just before and just after the day the COVID-19 virus was announced, the market (in this case, Nifty-50) experienced an increased number of investors who were holding their shares selling those shares (panic selling), and a significant decline in the investors' faithfulness and trust in investing in the Indian stock market. There was a substantial decline in domestic stock market valuation, due to both of these factors in addition to an expected weakening economy. This was far greater than the modified domestic indices during global financial crises up to, and including, the Global Financial Crisis of 2008.

Empirically investigated how market returns and liquidity have evolved during lockdown announcements, and found large declines (e.g., ~42% decline) in stock prices, in line to the reactions observed in global markets following the unexpected news of lockdowns and mobility restrictions.

Research based on sectors demonstrates the inequality of the impact of the pandemic on all sectors. When using NSE sector indices, some studies reveal different magnitudes of negative abnormal returns, suggesting differential exposure to pandemic.

Other research, like the day-of-the-week effect in the pandemic, indicates that return anomalies and other return calendar effects increased over time, reflecting enhanced return effects due to the health pandemic.

Perhaps the most prominent finding in literature is dramatic increases in market volatility during the pandemic.

The Generalized Autoregressive Conditional Heteroscedasticity (GARCH) models were used to examine the market of Mumbai Sensex and the National Stock Exchange of India's Nifty index to investigate the variations in volatility before, during, and after the COVID-19 pandemic. Their results show that there were massive rises in volatility in the lead-up to, and during the pandemic, and hence greater risks associated with that period. Other studies have applied similar GARCH model to study both volatility and leverage effects in all the major stock exchanges in India, and found that all of them display similar large increases in volatility like we have seen globally due to COVID-19 pandemic. Other research was conducted to assess the impact of COVID-19 on asset allocation, finding that all equity strategies were impacted by the pandemic but some assets performed better than others in uncertain times. Some other works aim to understand the transmission of shocks among markets, in addition to returns and conditional variance.

The study that focused on volatility transmissions between various sector indices of the BSE demonstrated that, as a result of COVID-19, overall volatility spillovers have significantly increased (by around 69%) with some sector such as the energy sector being the net volatility transmitters. Within a few weeks of the onset of the COVID-19 epidemic, the multivariate volatility studies find an increased volatility spillover (market not just stocks) between the stock index, foreign exchange and other assets reported, so the epidemic spread across various financial markets.

There is some recent research on persistence and structural effects of the pandemic:

Associate the strictness of the lockdown and lockdown stages with continued market volatility, thereby showing that there was a longer lasting effect than the reaction to initial shocks, due to the longer-term disruption of activities.

Presents persistence in the sectoral responses to COVID-19, arguing for various industries on the NSE that had different time-varying correlations with the market index - this revealed varying levels of interconnectivity and persistence of the shock in an emerging market.

Other studies include the effects of the pandemic on market efficiency and pricing:

The emergence of the COVID-19 pandemic initially had a lot of disruption in the market owing to excessive government intervention. This may have been due in part to the behaviour and emotions of investors, such as selling-off stocks based on price charts and mimicking others investors' activities. Although researchers do not yet fully understand the behaviour and response of investors to the COVID-19 pandemic in India, the research that has been done by others has suggested that investors' behaviour has played an important role in the stock indices' volatility and stock market turnover in recent years.

The stock market in India has had positive recovery moments after falling precipitously on the basis of Government initiatives to support economic growth during the pandemic, namely (i) the ease-off on lockdowns, liquidity in the financial system and investor sentiment. The final takeaway is that the stock market had fallen to a low at the end of the first lockdown imposed due to COVID, and were starting to recover as countries were coming out of lockdowns and the vaccination was starting. Therefore, we have seen a V-shaped recovery of the most of the indexes since reaching their lowest points.

Regression analysis used several variables (daily growth of cases; lagged days; returns of stock markets). There was a negative relationship between the daily increase in cases; and the stock market return in the same day. The stock markets' overall returns actually began to change as the pandemic continued - partly due to a more positive outlook on the pandemic and effective policy responses.

Most of the papers examining how markets have responded to COVID have been utterly reliant on the timing of the waves (and their intensity), and show that the market behaviour was not identical around the globe and across time. At first the theorists simply "merged" the effects of the pandemic into one event, but as it became apparent there were many waves of the pandemic worldwide, researchers started to look at how the first wave, the second and even the third, defined stock price movements in a particular way.

Some initial studies on the waves of COVID-19 in emerging markets considered the first wave, and the second wave of COVID-19 as two distinct events that had a negative impact on the Indian equity markets such as the BSE Sensex, the National Stock Exchange (NSE) Nifty, and the India VIX. One of these studies noted the first wave from August to October 2020 and the second wave from March to May 2021, and found the relationship between the number of COVID-19 cases and stock returns of these indices was statistically significant. The correlation tests of this study have confirmed that as the number of the cases increased, the daily returns were likely to decrease, especially when the infection rate was high, and the correlation coefficient was significant (Maheshwari and David, 2022).

A number of papers also take into account of the different stages of lockdown and waves of infection and show that the first wave was typically found to lead to the greatest direct negative impact of COVID-19 cases on stock returns and volatility. For example, comparisons of the first and second waves typically demonstrate that the first wave was associated with the largest drops, as investors in financial markets were initially surprised by the ongoing pandemic and lockdowns, but second waves relatively often had a less severe (or more complex) effect, as markets became somewhat accustomed to the pandemic (Ahmed et al., 2021; Syed et al., 2021).

Very few studies focusing on three waves suggest that the dampening of the effects could be further reduced over time. The only systematic study of the three waves of COVID-19 in financial markets in South Asia suggests that while the first wave led to strong negative returns and volatility, the latter waves put smaller effects (Ishtiaq et al., 2021). The latter study highlights that market dynamics and investor behaviour can be the reason behind it as the markets begin to anticipate and adapt to pandemics at a later stage (Ishtiaq et al., 2021). This finding echoes large-scale studies elsewhere that the markets consider pandemic risks earlier in the late waves of pandemic as uncertainty about pandemic is reduced in later waves with better information and policy innovations.

Waves also capture the nuances in terms of valuations and commodity interactions. For example, while comparing stock and commodity markets in India between the first and second waves, oil prices and stock prices fell and the correlation direction reversed in the latter wave compared to the former, suggesting differential effects of markets (22 asset classes) influenced in the two phases of the pandemic (Ahmed et al., 2021).

This pattern of market evolution across the pandemic waves receives support in the studies on the sectoral effects. While initial studies have examined the macro negative spillovers in the early times of the COVID-19 pandemic, later research stresses that during the subsequent waves, with respect to market volatility and risk, defensive industries (i.e. consumer staples or information technology) were differently affected from cyclical ones, suggesting that markets learned risk exposure over time (Bhattacharjee, 2024).

Regardless of these facts, most research has been focused on the first two waves with less being formally distinguished as a third wave. Indeed, there is now evidence that the third wave (e.g. India in late 2021 and early 2022), which was not accompanied by the same level of negative stock responses found in the first and second waves (e.g. markets became less afraid of the pandemic, and that fear faded away with the rollout of the vaccines and associated government measures, which cured general market panic (empirical summaries) and fear). Third wave effects, however, are more nuanced and less uniform across the literature, in turn showing that more research needs to be done in this area where there are three or more waves of the pandemic compared with aligned approaches.

The coronavirus pandemic produced a shock to the Indian economy, and generated an unprecedented level of marketplace volatility. However, the existing research literature supports the idea that the responses of the Indian stock market (BSE SENSEX and NSE NIFTY) were not all uniform during the pandemic. Pradhan et al. (2021) and Sangwan et al. (2021) mention that exaggerated financial volatility for the first wave of COVID-19 in India was excessively high when compared to the financial effects of previous global pandemics such as the 1918 flu, SARS in 2003 and Ebola in 2013.

The first wave (and the return wave in March 2020), created the crisis. The extent of behavioural and statistical anomalies of this period is well discussed in the literature: Herd Behaviour and Panic Selling: Dhall and Singh (2020) and Thomas et al. (2020) contributed to investigating the investment behaviour during this period. They found that the BSE and NSE demonstrated high levels of herd behaviour as the investors intuitively abandoned the fundamental analysis and resorted to panic selling because of the prospect of no knowledge of "unknowable". Volatility and Circuit Breakers: Bora and Basistha (2021) used a Generalized Autoregressive Conditional Heteroscedasticity (GARCH) model to statistically demonstrate that the dominance of the return indices was very high before the start of the COVID-19 pandemic as compared to the first wave's peak. The financial stress was excess, as argued Akhtaruzzaman et al. (2020), with the Indian stock markets activating circuit breakers in March 2020 (twice), which had not happened in the past 12 years. Flight to Safety: Syed, Tripathi, and Deewan (2021) employed the use of the Autoregressive Distributed Lag (ARDL) model at this time and revealed a shift in safe haven. The equity (stock) and oil prices experienced a fall while the gold had a positive jump.

The first was panic-inducible while the latter two (less fatal, Delta variant in Spring 2021 and super contagious, Omicron variant in Winter 2021-2022) were welcome. Pricing in the time of Crisis: Sreelakshmi, Sinha, and Mandal (2021) examine the effects of investors' sentiment on pricing because the first stimulus package and lockdown had a significant negative impact on returns, but the second wave did not significantly impact returns. The market has taken into account the worst-business-as-usual scenarios and adapted itself to the remote/digital mode of work. Third Wave: If we are in time, a range of the recent studies on the macroeconomic aspects of the three waves have shown that the third wave is the mildest. The third wave has been represented by a very small insulation of equity prices despite an increased inflation, mainly as the result of the vaccination program and a shift towards "flattening the curve" that showed the long-term disintegration between the pace of growth of the virus spread and stop/pages. Cointegration vs. causality: Macro fundamentals: In terms of macroeconomic fundamentals, some of the studies deployed both the Johansen Cointegration and Engel-Granger Causality tests in order to demonstrate that while there has been negative cointegration in the long term between the growth of the COVID-19 crisis and Indian stock market index, both are not casually dependent as the buffer zone is represented by the government monetary policy and international liquidity.

Another thread in the ballooning literature is that the Indian stock market did not go up or down together; there was a vast gap in the sectoral performance during waves.

Healthcare and Pharmaceuticals are the saviours: In the first wave, only the healthcare and pharmaceuticals received negative abnormal returns. Using a sector panel data approach, Mittal and Sharma (2021) and Rao et al. (2021) have shown that pharmaceutical indices offered a positive return in India because of vaccine frenzy, government stimulus packages, and the need for medical supplies.

Capital Goods and International Comparisons: Indian capital goods sector experienced supply chain issues from frozen supplies and labour migration. Some researchers, such as Thorbecke (2020) and Alam (2020) show us a different picture internationally: in the first wave, the Shanghai Stock Exchange provided positive abnormal returns in capital goods whereas the Indian and U.S. market only had negative effects.

Metals & Mining: Procession of the 2nd Wave: In addition to the cyclical industries, Assaf et al. (2023) using the event study method showed that metal and mining industries' firms performed comparatively worse in the price response compared to overall Nifty50 during the first lockdown. However, in the second wave, the negative impact was alleviated due to the pick-up in global industrial demands.

Policy interventions and macroeconomic variables played a large moderating role on the stock market trend.

Exchange Rates and Uncertainty: Baber et al. (2022) have established that the stock market in India and exchange rate volatility is significantly negatively related. Rupee depreciation was more detrimental to market sentiment than the COVID-19 case count.

The Role of Packages: References are made to the Reserve Bank of India (RBI) and the Ministry of Finance in the majority of studies. As per Sreelakshmi et al. (2021), the launching of enormous fiscal packages triggered a sudden change in the investors' mindset as they were transformed into risk-taking rather than risk - adverse investors. Packages were able to protect the market as a whole and therefore the market recovered faster than the physical economy.

The extended literature supports the notion that the response of the Indian stock market to the coronavirus pandemic has shifted from irrational panic to rationality. The first wave was herding, unprecedented volatility and safe-haven effect. However, the second and third were market sophistication and resilience that relied on stimulus and hope of vaccines in a large part. Finally, the literature shows financial markets are forward-looking; once initial shock of a new event is subsumed and discounted, it is hard for a new COVID-like (or with equal or higher human causalities) event to impact the market in the same way.

The impact of first wave of COVID-19 on the Indian Stock Market

The initial surge of the Coronavirus Pandemic and the subsequent lockdown imposed by the Government of India on the nation in March 2020 was an example of a Black Swan event. As an exogenous shock it abruptly led to the recession of the economic activity. The first wave has been always the focus of the academic world and for it, it's not just a health crisis but a crisis of significant financial uncertainty, with record withdrawals from the equity markets, intense panic and severe liquidity constraints.

The historical events of the past (the crashes and high volatility) mark the earliest reaction of the Indian stock exchanges (BSE SENSEX and NSE NIFTY) to the first wave.

The worst in history drawdowns: The prevailing view in research is that the start of the pandemic resulted in asset price meltdown. Exploring the immediate impact of the complication, Mishra, Rath and Dash (2020) observed that a "big-bang" shock (or structural break) occurred in the stock returns of the Indian market that was co-mediated with the rise in Indian cases and declaration of lockdowns around the world.

Circuit Breakers and The Velocity of the Fall: This was the rapidity of the market fall. Akhtaruzzaman, Boubaker, and Sensoy (2020) stressed on the financial stress as the equity markets in India suspended the lower circuit breakers for the second time in March 2020, to prevent the market from collapsing. This was last seen in the Global Financial Crisis (GFC) in 2008.

Volatility Modelling: Bora and Basistha (2021) statistically explained, using Generalized Autoregressive Conditional Heteroscedasticity (GARCH) models that the market volatility in the first wave was significantly greater than the baseline in the pre-COVID era as the Indian firms failed to estimate their earnings.

A large part of the research makes mention of the severity of the market correction in the first wave to be a result of human behaviour instead of "immediate" degradation in fundamentals.

Fundamentals Abandonment: Dhall and Singh (2020) conducted a series of empirical studies of investor behaviour during the lockdown. They found considerable evidence of herd behaviour on the BSE as well as the NSE. In the situation of media-driven panic and uncertainty, investors unconsciously abandoned the fundamentals and driven into panic selling.

Information Asymmetry: Thomas et al. (2020) backed this up by showing that the first phase of the first wave caused large information asymmetry. There was no precedence available on how a 21st-century worldwide lockdown would happen and investors took the risk-off trade of exiting equity positions that were assessed on a stock-by-stock basis, regardless of the corporate balance sheet.

The research shows a massive flight to more conventional safe-haven assets as we saw a plunge in stock prices and a very pronounced risk-off sentiment.

The Gold vs Stocks: Syed, Tripathi and Deewan (2021) used the Autoregressive Distributed Lag (ARDL) model to explore the relationship between the asset classes in this period. They found that stock market and crude oil price has been devastated by a negative impact but the price of gold has received a positive strong impact. The intrinsic value of gold has attracted investors to save their money on depreciating Rupee and depreciating stocks.

The first wave was devastating for the economy at large but as indicated in the literature there was unequal impact.

The Decimation of Cyclical Sectors: Gupta and Agarwal (2024) identified in their event study analysis that industries which operate on consumption demand and physical travel (aviation, hospitality, traditional retail and banks) have suffered extremely negative abnormal returns. These sectors had a virtual shutdown due to lockdown.

Pharmaceutical Rally: The health sector has been the 'winner' of the crisis As the Indian pharmaceutical sectors were having high returns when the NIFTY 50 was down, Mittal and Sharma (2021) have applied sector panel data analyses. This was due to the domestic and global demand for medical supplies, life-saving medicines and the "vaccine race".

Academic consensus on the first wave of COVID-19 is that it triggered a panic in the financial markets much larger than its immediate health consequences. Indian stock market reaction was a herd selling rush, unparalleled market fluctuations, and a retreat to safe-haven investments. The literature of this period emphasises that "markets hate uncertainty"; the lack of certain information about the number of days spent in lockdown and lack of information about the virus caused investors to believe the apocalyptic worst economic outcomes.

The Second Wave Paradox: Paradox of the Second Wave.

India's COVID-19 second wave (largely attributed to the highly contagious and aggressive Delta variant) in spring 2021 resulted in a socio-economic paradox. This was a biologically and socially worse period with an overwhelming death rate in the country, acute shortage of oxygen, collapse of the national medical infrastructure, compared to the first wave. But the academic sources of information that cover this period also reveal an interesting anomaly, Indian equity market index (represented by the BSE SENSEX and NSE NIFTY) exhibited surprising strength and was belligerently decoupled from the epidemic.

The second topic that has gained a large proportion in the literature on the second wave has been the market adaptation theme and price of the risk. The second wave was a known risk factor instead of the first wave that was all about a high level of uncertainty.

Coping with the Shock: Sreelakshmi et al (2021) conducted an empirical analysis of stock returns and investor behaviour during the pandemic. They concluded that the first wave was a surprise and accompanied lockdowns, resulting in a significant negative abnormal return but the second wave did not have a similar significant negative impact on the indices' performance in general.

Rationality over Panic: Similarly, Baber, Shaik, and Gupta (2022) have found that by the second wave, the fear factor had subsided of institutional trading. Markets are forward looking; the market has factored in the worst case in 2020. The availability of vaccines, even if initially limited, provided a time line for the recovery of the economy, which prevented the panic sell-off as last year.

The structural measures by the government and the corporate sector have also been attributed in the second wave in the mitigation of the Indian stock market as depicted in the literature.

Micro-Containment vs. National Halts: In the second wave, the Indian government implemented local lockdowns and micro-containment areas in contrast to the sudden national lockdown in March 2020. In their study, comparing the two events, Gupta and Agarwal (2024) said this was done in order to avoid 'lock down of supply chains and inter-state trade'.

Business Adoption of Digital: As the researchers explained, in the period in between, India Inc was well-adapted to the new normal. India Inc. was prepared for the new normal, having already developed the required infrastructure of remote work, digitised supply chains and had the required liquidity belts that suggested that the second wave was less impactful on operations than the first.

The flows of capital in the second wave were completely different than those during the first wave which implied a shift from risk-off to risk-on.

Risk-Off: First wave, Gold Rush but Syed, Tripathi, and Deewan (2021) using an ARDL model have demonstrated that the association between the two commodities was completely reversed in the second wave. The spike in the infection rates in the beginning of 2021 was a negative momentum in the price of gold, while there was a positive momentum in the equities and crude oil prices. This suggested that apart from focusing on the national calamity for the moment, investors were looking to prospects of a strong and global vaccine-led recovery.

While the first was indiscriminating in targeting cyclical industries for a razing, with no sector having a disproportionately high benefit, the latter was harsher in its impact.

The Global Return of Demand: Assaf et al. (2023) carried out expert research in the field of metal and mining, envisaging those sectors which are very sensitive to cyclical variations. They found that contrary to the 2020 lockdown, during which they had highly react unfavourably in price, they had responded very positively during the second wave of the COVID-19 pandemic in India. This was largely driven by the reopening of the Western economies and China which kick-started an unparalleled surge in aggregate global demand for commodities and exports by Indian metal conglomerates, which then trumped local hardships.

Stability in Defensive Sectors: The IT and Pharmaceutical industries, unquestionably the winners of the first wave continued to grow but also began to manifest uniform growth rates as compared to more speculative volatility of the start of 2020 (Rao et al., 2021).

The consensus of the second wave of COVID-19 in India among the scholars reflects a high stage of financial market development. This research confirms without doubt that the Indian stock market broke its connection with the terribly tragic, ground reality. Given that the markets were already contemplating the pandemic shock, and the previous year's performance was already factored into equity prices, and in the wake of localised lockdowns corporate activities could continue, the market did not view the second wave as apocalyptic but as a bubble burst in the long road of economic revival and recovery.

Indian Stock Market: The effect of the 3rd Wave of the COVID-19 pandemic.

Omicron (third) COVID-19 pandemic wave in India was late in December 2021 to early February 2022. Although the first wave (characterized by panic) and the second wave (characterized by humanitarian crisis), the third wave is characterized as the Economic Normalization phase. The connection between the stock market and cases on a daily basis had shifted during this period. This was the last and least-economically-affected stage of the pandemic, as researchers, including Baber, Shaik and Gupta (2025), explain, because the market had already adjusted to the news regarding the pandemic.

In the current study, one important result is that the sensitivity of news on COVID-19 disappears.

The learning curve: Sahoo (2021) and Baber et al. (2025) have found that the Indian stock market had a learning curve. The first and the third waves experienced a 40 percent dip in indexes and the third wave experienced no or slight serious downwards trend in BSE SENSEX and NSE NIFTY.

Uncertainty aversion, preference of predictability: In a comparative analysis of the three waves, researchers identified that the influence of the second wave on the inflation rate and the stock prices were still negative but not the third wave (Baber et al., 2025). This has been suggested to be due to the fact that now the uncertainty of the virus was eliminated and there was predictability in how the government responded (localised lockdowns).

Success of the national vaccination program has been correlated by literature with resilience during the third wave.

Vaccine Optimism: Sreelakshmi et al. (2021), recalled that during the onset of the third wave, the high level of the double-vaccination of the Indian urban workforce was used as a buffer of the sentiment of the investors.

Decoupling with Cases: The studies, which have studied the January 2022 surge (when the number of cases per day was more than 300,000 cases), have shown that actually the stock market was not bearish but instead it was tracking the peak (Baber et al., 2025). This implied full disconnection in the number of infections that the count of infections did not significantly contribute to the Capital Asset Pricing Model (CAPM) of Indian stocks.

The third wave was characterized by the market no longer being dominated by sectors as the market started being dominated by the "Stay-at-Home" trade started to fade away in Favor of the "opening plays" taking over.

The normalisation of IT and Pharma: Although Information Technology (IT) and Pharmaceuticals were the two most outstanding defensive hedges during the first and second waves (see Mittal and Sharma, 2021; Rao et al., 2021), in this instance, the abnormal returns began to stabilise in the third wave.

Return of the Real and FMCG: According to the recent sectoral research conducted by Gupta and Agarwal (2024) in the third wave, the under-performing sectors like Real Estate, FMCG and Capital Goods began to pick up pace as compared to the rest of the market as investors began to expect a long-term normalization.

The third wave saw the pandemic as the major source of market volatility, which would be substituted by global macro-economic factors.

The Inflation Transition: According to a study done by Baber, Shaik, and Gupta (2025), the Indian stock market was more receptive to the increase in rates of inflation and Rupee versus the Dollar in the beginning of 2022 than to the rates of Omicron infections.

Global Liquidity: The loose money phase of the first two waves which was caused by the liquidity injections by the Reserve Bank of India (RBI) started to narrow in the third wave and the survival mode due to pandemic mode of investment was towards rate cycles.

Finally, the third wave is a final bit of scholarly evidence of the ultimate way financial markets ultimately self-immunize against repeated shocks after we have learned the nature and impact of those shocks and counter-policing.

3 Conclusion

This scholarly work was a comparative study between the stock market in India in terms of its reaction towards the three different missions of the COVID-19 pandemic. The results show that there has been a radical insight into changes in the behaviour of the market that have transformed, and are more or less systemic shock to strategic resilience, and finally, complete normalization.

The Waves are synthesized in the following way: 1.

The paper finds that the effect of the pandemic on the BSE SENSEX and NSE NIFTY displayed a declining trend of sensitivity:

First Wave was a period of Uncertainty and Panic. As there was no past history of lockdowns like the current activities, this led to herd behaviour and consequently triggered a collapse in the market despite the comparatively low number of clinical cases. This step demonstrated the fact that a market is more scared of the unknown than it is scared of the risk itself.

The Second Wave reflected a "Resilient Decoupling." The market was also bullish although the Delta variant caused a humanitarian tragedy. This implies that by the time that the shock was realized in 2020 and with corporate adaptation and localized containment plans in action, the investors became biased towards long-term recovery and worldwide demand.

The Third Wave was the period of the Normalization. By early 2022, the stock returns correlation statistically changed to be insignificant with the rates of infections. The market innately immunized itself, and focused more on macroeconomic indicators such as inflation and interest rates than on pandemic-related information.

2. Sectoral Divergence

The review points out that the pandemic was not a monolith on the economy. There was a K-shaped moribundity that saw digital-first industries (IT) and defensive industries (Pharmaceuticals) as anchors, and cyclical industries (Aviation, Tourism, and Banking) in a period of long-term instability before picking up in the late stages.

3. Final Remarks

The experience of the Indian stock market during the COVID-19 pandemic can be viewed as an attestation of the professionalism of the domestic investor base and the ease of active actions of monetary and fiscal policies. Despite the unprecedented physical and social physical shock, the pandemic brought, the capital markets demonstrated a spectacular capacity to see beyond the acute crisis to envisage the future expansion. To policy practitioners and investors, the most important lesson to learn is that being prepared and transparent is the best mechanism towards reducing the effects of future exogenous shocks on national financial stability

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