

## Asset Pricing Puzzle and GDP-Growth: Pre and Post Covid-19 Pandemic Effect on Pakistan Stock Exchange

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**Abstract :** This work is an endeavor to empirically investigate the Gross Domestic Product-Growth as mediating variable between various factors and portfolio returns using a broad sample of 522 financial and non-financial firms enlisted on Pakistan Stock Exchange between January-1993 and June-2022. The study employs the Structural Equation modeling and Ordinary Least Square regression to determine the findings before and during the Covid-19 epidemiological situation, which has not received due attention by researchers. The analysis reveals that market and investment factors are redundant, whereas size and value show significant results, whereas Gross Domestic Product-Growth performs significant mediating impact for the whole time frame. Using before Covid-19 period, the results reveal that market, value, and investment are redundant, but size, profitability, and Gross Domestic Product-Growth are significant. During the Covid-19, the statistics indicate that market and investment are redundant, though size and Gross Domestic Product-Growth are highly significant, but value and profitability are moderately significant. The Ordinary Least Square regression shows that market and investment are statistically insignificant, whereas size is highly significant but value and profitability are marginally significant. Using the Gross Domestic Product-Growth augmented model, a slight growth in R-square is observed. The size, value and profitability factors are recommended to the investors for Pakistan Stock Exchange. Conclusively, in the Pakistani market, the Gross Domestic Product-Growth indicates a feeble moderating effect between risk-premia and portfolio returns.

**Keywords :** asset pricing puzzle, mediating role of GDP-growth, structural equation modeling, COVID-19 pandemic, Pakistan stock exchange

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