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Country Responses and the Reaction of the Stock Market to COVID-19—a Preliminary Exposition

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ABSTRACT

As the coronavirus pandemic (COVID-19) has amplified so has country responses to it. With COVID-19 taking its toll on humans, as reflected in the number of people infected by, and deaths from, COVID-19, countries responded by locking down economic activity and peoples movement, imposing travel bans, and implementing stimulus packages to cushion the unprecedented slowdown in economic activity and loss of jobs. This article provides a commentary on how the most active financial indicator – namely, the stock price – reacted in real-time to different stages in COVID-19's evolution. We argue that, as with any unexpected news, markets over-react and as more information becomes available and people understand the ramifications more broadly the market corrects itself. This is our hypothesis which needs robust empirical verification.

KEYWORDS:

Notes

1. Some recent papers are Narayan (2020), Gil-Alana and Monge (2020), Liu, Wang, and Lee (2020), Zhang, Hu, and Ji (2020), Haroon and Rizvi (2020), Ali, Alam and Rizvi (2020), Al-Awadhi et al. (2020), Fu and Shen (2020), Qin, Zhang, and Su (2020), and Apergis and Apergis (2020).
2. Typically, in financial economics, modeling stock returns' response to shocks entails controlling for both market risk and macroeconomic risk factors (see Birz and Lott 2011; Fama and French 1993, 2012). Given the discussion, we present on the status obtained by COVID-19, primarily the fact that it is considered an unprecedented event, by default implies that when in effect COVID-19 has no competition in terms of risk. In other words, macroeconomic and/or market risks should not matter. Thus, the loss from not accounting for commonly known risk factors of returns is all but trivial and does not influence the story we tell.
3. This paper has three main datasets. First, the daily number of infected cases and deaths for countries are obtained from Our World in Data (<https://ourworldindata.org/>), which is collaboratively organized by University of Oxford researchers and Global Change Data Lab. The data from Our World in Data has been widely used in research, teaching and media by Harvard University, Stanford University, University of Cambridge, University of Oxford, The Wall Street Journal, The New York Times and more. Second, the list of country stock indexes and their daily stock prices are collected from the Datastream database. Finally, the dates of events, namely, WHO pandemic declaration, travel ban, lockdown, and the stimulus package, are collected from various internet sources such as the WHO website, the New York Times, the Washington Post, BBC, CNN, CNBC, and the Guardian.

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