Libyan International Medical University
Faculty of Business Administration

The Impact of COVID-19 on Stock Returns
Contemporary Issues

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By: Yousif Shwehdi

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Introduction: Key Words & Definitions

- **The Pandemic's Impact Around The World**

The coronavirus outbreak started in the Chinese city of Wuhan on November 2019, and was labeled a pandemic on March 2020 by (WHO). As of January 5, 2023 the number of confirmed patients is around 666 million, with approximately 6,704,739 deaths.

Severely damaging people's productivity and quality of life all over the globe. Negatively impacting most if not all business industries.

- **The Pandemic's Impact on Stock Returns**

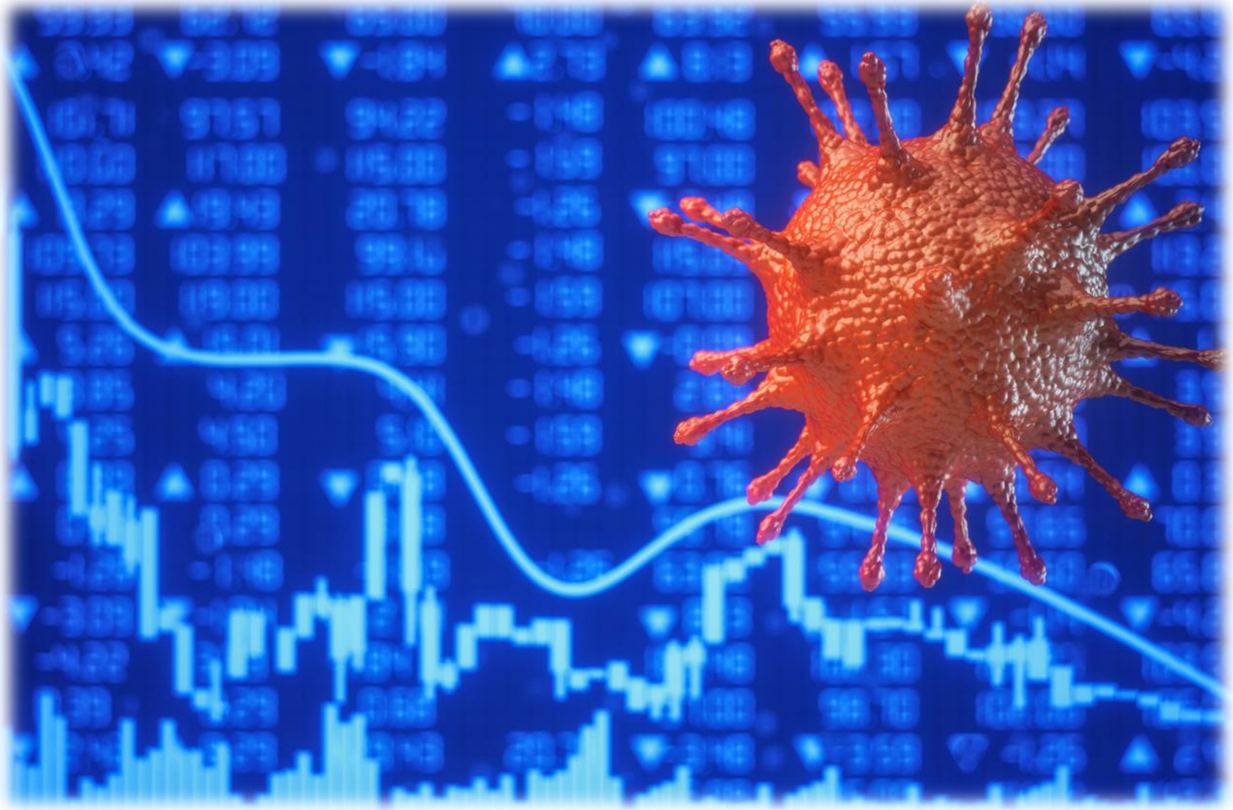
The pandemic has affected every stock market in the world, experiencing negative abnormal returns. The majority of global stock markets have plummeted, and international financial organizations have reduced their growth predictions for 2020 and beyond.

The first confirmed COVID-19 case announcement had a significant negative impact on stock returns, evidence from eleven global stock market indices.

Keywords: Stock returns, Stock market, securities, COVID-19, pandemic.

Theoretical Background

This study used the qualitative method, collecting secondary data from 20 scientific articles on the impact of COVID-19 epidemic on stock returns.



The purpose of this theoretical research is to examine how COVID-19 has affected the stock market and its impact on stock returns, both good and negative.

Summary of Literature

Pinglin He, Yulong Sun, Ying Zhang & Tao Li (2020)

- Studied COVID–19's impact on stock prices across different sectors, based on the Chinese stock market.
- Finding that the pandemic had a negative impact on the transportation, mining, electricity and heating, and environmental industries. However, the manufacturing, information technology, education, and health-care industries have proven to be resistant to the pandemic.

Fernandez-Perez, A., Gilbert, A., Indriawan, I., & Nguyen. (2021)

- Studied the stock market response to COVID-19 from a cultural perspective.
- Finding that during the first three weeks following a country's first COVID-19 case announcement, stock markets in countries with low individualism and high uncertainty avoidance tendencies react negatively and with greater volatility than countries with high individualism and low uncertainty avoidance tendencies.

Summary of Literature

Gil-Alana, L. A., & Claudio-Quiroga, G. (2020)

- Studied the COVID-19 impact on the Asian stock markets and their economic maneuvers using the pandemic's shock value.

- Basing their results on daily observation data showing that shock transitory effects occur in the Nikkei 225 index. However, for the Kospi and Shanghai Shenzhen indices, their hypothesis is rejected, which implies that shocks are permanent.

Khatatbeh, I. N., Hani, M. B., & Abu-Alfoul, M. N. (2020)

- Studied the impact of COVID-19 pandemic on global stock markets, observing trading day windows from the start of the outbreak.

- Finding that the first COVID-19 case announcement had a significant negative impact on the returns, according to evidence from eleven global stock market indices. Furthermore, these effects were augmented after the World Health Organization (WHO) declared COVID-19 a global pandemic on March 11, 2020.

Summary of Literature

Mazur, M., Dang, M., & Vega, M. (2021)

- Studied COVID-19's impact on the march 2020 stock market crash in the US, using S&P1500 as their research instrument.
- Finding that stocks in the healthcare, food, natural gas, and software industries perform exceptionally well, generating high returns, whereas businesses in the crude petroleum, real estate, entertainment, and hospitality industries plummet significantly, losing more than 70% of their market capitalizations.

Yan, C. (2020)

- Studied how Chinese stock markets react to the outbreak of COVID-19 in a window of fifty trading days.
- Finding that throughout the window period, stock returns reverse once every ten trading days, and firm size is a key factor in resisting the return reversals. Also finding that firms with lower ownership concentration and securities margin trading pilot firms suffer less loss during the COVID-19 outbreak.

Summary of Literature

Wei, R., Chen, X., & Chang, C. P. (2021)

- Studied if COVID-19 pandemic hurt stock prices of solar enterprises.
- Finding that the more stringent the government response is and the more severe the epidemic is, the more significant the economic intervention will be which may decrease the demand for solar energy and depress solar stock prices.

Kwan, S. H., & Mertens, T. M. (2020)

- Studied the market assessment on COVID-19 observing its effect through S&P500 U.S stock index.
- Finding that in the United States, the Standard & Poor's 500 stock index achieved an all-time high on February 19, 2020, despite news reports from China about the spread of the coronavirus since the beginning of the year. As the global spread of the coronavirus became known, the stock market plunged rapidly, with the S&P500 dropping 38% between February 24 and March 20.

Summary of Literature

Chebbi, K., Ammer, M. A., & Hameed, A. (2021)

- Studied the COVID-19 pandemic's relationship with stock liquidity and how it affects firms liquidity.

- Finding that a negative and significant relationship between COVID-19 and stock liquidity, indicating that an increase in the daily growth rate in the total number of confirmed cases and deaths resulted in a lower level of firm liquidity.

Höhler, J., & Lansink, A. O. (2021)

- Measures the impact of COVID-19 on stock prices and profits in the food supply chain industries.

- The result was that stock price volatility is associated with higher financing costs and higher price risk premiums. The fertilizer and agrochemicals sub-sector had the highest stock price volatility at the start of the pandemic. This increased volatility is from the industry's reliance on oil prices. Food distributors also demonstrated relatively high volatility.

Summary of Literature

Lalwani, V., & Meshram, V. V. (2020)

- Researched stock market efficiency in the time of COVID-19 using industry stock returns information as evidence.
- Their findings indicate that the predictability of stock returns has increased in some industries during the COVID-19 period. During the COVID-19 crisis, markets appear to have become less informationally efficient.

Thorbecke, W. (2020)

- Observed and studied the impact of COVID-19 on the US economy using the stock market as sample.
- Finding that large losses were caused by macroeconomic factors in the production equipment, machinery, and electronic and electrical equipment sectors. Which indicates that many companies in these industries had no choice but to liquidate.

Summary of Literature

Dharani, M., Hassan, M. K., Huda, M., & Abedin, M. Z. (2022)

- Examined whether the Covid-19 pandemic had a homogeneous or heterogeneous effect on stock returns in India.
- Their results showed that due to fear and heavy selling pressures from foreign institutional investors, domestic institutional investors, and retail investors, the daily growth rate in Covid-19 cases and the daily growth rate in Covid-19 deaths are negatively associated with stock returns.

Ahmed, S. (2020)

- Researched the impact of COVID-19 on performance of Pakistan stock exchange.
- He found that recoveries had an impact on the index's performance, while daily positive cases and fatalities had a minimal impact, which is considered abnormal in comparison to other countries.

Summary of Literature

Narayan, P. K., Gong, Q., & Ahmed, H. J. A. (2022)

- Examined if there is a pattern in how COVID-19 has affected Australia’s stock returns.

- By employing a quantile regression framework, the result was that COVID-19's impact on the Australian stock market is heterogeneous in nature. While the pandemic benefited the health, information technology, and consumer staples sectors, other sectors were either negatively impacted or not affected at all.

Lee, K. J., & Lu, S. L. (2021)

- Studied the impact of COVID-19 on the stock price of socially responsible enterprises in the Taiwan stock market.

- Finding that after the outbreak, the stock prices of all companies generated significantly negative abnormal returns and negative cumulative abnormal returns. When compared to all companies and non-CSR companies, CSR companies were less affected by the outbreak, their stock prices were less volatile and recovered faster.

Reflection

The papers that were studied and reviewed in this literature discuss how the COVID-19 pandemic affected stock returns. The first confirmed COVID-19 case announcement has had a significant negative impact on the returns globally. Moreover, the impact rose even more when (WHO) announced the pandemic on March 11, 2020.

Reflection

Stock markets that are in the literature have reflected investors' concerns about the possible economic consequences of the epidemic. The predictability of stock prices has grown for stocks in several industries, including Telecom, Manufacturing, Business Equipment, Finance, and Shops. As a result, the findings indicate that the COVID-19 problem has resulted in greater inefficiencies in stock returns.

Limitations

The limitations of this study indicate that there is still room for future researchers to fill research gaps; the limitations challenged were based on the frequent use of secondary data, and most articles did not share the same point of view due to countries not having the same economic conditions.

Implications

The findings of the results obtained from this study have two different implications for investors. First, to invest in different securities and diverse the pool of securities (portfolio) leading to a decrease in risk level when dealing with stocks.

Implications

Second, COVD-19 may serve as a chance for investors to invest in securities post-return decrease; as a result, during this time, one should invest to capitalize on the opportunities presented by the stock market's downturn.

Recommendations

First, governments needed to respond quickly to the COVID-19 pandemic because adopting strong short-term policies is more practical than adopting long-term ones.

Second, the effectiveness of the anti-epidemic policies implemented by governments is a crucial factor that offsets the negative impact of the COVID-19 pandemic on stock market returns.

Recommendations

Third, governments should fully consider the time lag of their policies and implement policies according to the stage of an epidemic.

Fourth, governments should make appropriate monetary interventions, strengthen their control of exchange rate fluctuations, and extend the duration of monetary intervention measures to ensure the stability of exchange rates,

Recommendations

Further recommendations focus on researchers adopting either practical data or collecting a larger set of literature than the 20 journal articles collected.

Conclusion

The aim of this theoretical paper is to analyze how COVID-19 has influenced the Stock market and its effect on stock returns whether negative or positive. The findings indicate that COVID-19 pandemic has had a major influence on the returns of stocks from the stock market.

Conclusion

The findings indicate that COVID-19 was the main nominator in the third global stock market crash resulting in lower returns due to investors selling their securities. Therefore based on the theory of the supply and demand; the supply for securities overflowed in the stock market dropping the prices of stocks and bonds eventually leading to a drop in price returns on those securities.

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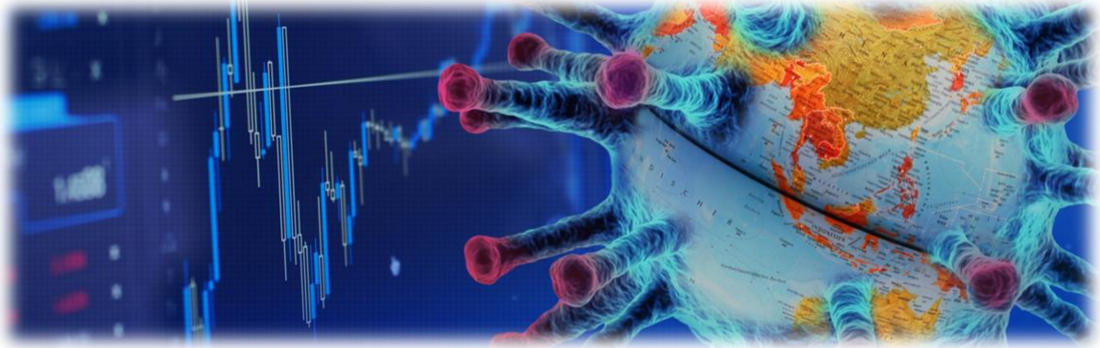

Thank You

Questions are Welcomed.