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Stock market reactions to COVID-19 lockdowns: A global analysis

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The COVID-19 pandemic has caused dramatic changes in the way how people around the globe live and has had a profound negative impact on the global economy. Much of this negative impact stemmed not from the disease itself, but from lockdown measures imposed to contain the spread of the virus. We investigate how from January to May 2020, national stock market indices reacted to the news of national lockdown measures to contain the spread of the virus. We find that lockdown measures led to differentiated responses in our sample of OECD and BRICS countries: there was a general negative effect of increases in lockdown measures, but we find strong evidence for under reaction during a lockdown announcement, followed by some overreaction that is corrected subsequently. This under-overreaction, however, happened mostly during the first half of our time series, pointing to learning effects. Loosening the restrictions, on the other hand, only had a positive effect on markets during the second half of our sample, while for the first half the effect is negative.

Biography

Matthias Scherf is a PHD Student at the University of Trier and working as a research assistant at the University of Trier. His PHD thesis in behavioral finance. His main research interests are in the area of behavioral finance, decision theory and asset pricing.

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