

Encountering Covid-19 in the Stock Market Context

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Abstract

COVID-19 has hit the world tremendously and transformed regular daily routines into a new normative way of life. The consequence of COVID-19 has had a notable impression on the world economy, including current world investment. Therefore, investors nowadays have to face changes in their investments. The hurdles of the overall world economy are making the stock market decline day by day. Accordingly, investors should be wise to ascertain the appropriate time to enter the market to invest than before. Hence, this research attempted to explain the current market situation with the situation of investors. This study was administered based on a literature review that highlighted the writings and results of prior studies related to the stock market in Malaysia. Generally, the method used to produce this study was a qualitative approach that included highlighting and analysing secondary data obtained through documents, research results, or reviewed writings. The data captured were then analysed systematically using content analysis techniques writing. This survey was done, and the results confirmed that even though investors were worried, anxious and desired it all to end soon, they still strived their best to deliver and invest as best they could by gaining knowledge in whatever method they could to ensure they were not failing continuously in this volatile market as the impacts of the COVID-19 pandemic.

Keywords: COVID-19, Investment, Economy

Introduction

The ongoing COVID-19 pandemic is now presenting its contradictory impact on the local and global economy. It is indisputable by the world now because what has transpired has affected all sectors, one of which is the stock market. The stock market is one of the crucial sources of financing to grow a business (Bayraktar, 2014). Companies can increase their funding sources by selling their company ownership on the capital market. The funds raised are for long-term

applications to optimise and upgrade the performance of their businesses (Bose et al., 2019). The company then endeavours to secure and grow investor confidence by providing its best accomplishment in the market, including the Islamic stock market (Abdulkarim et al., 2020). Stock market developments lead to concrete contributions to economic growth in the country (Aali-Bujari et al., 2017).

An efficient stock market experiences good economic growth and simulates a positive relationship, both short and long term. It demonstrates that the transmission mechanism affects expansion and stock market investment (Coşkun et al., 2017; Lawal et al., 2018). Investors favour investing in countries with low unemployment rates, low social inequality and income gaps, low crime rates, and relatively stable politics and security conditions. Thus, the more stable the economic and political situation of the country, the better and more steady the stock market will be. The COVID-19 pandemic that immediately spread around the world initially did not affect the stock market. Nevertheless, with the rapid rise in mortality, the market began to respond negatively (Ashraf, 2020; Khan et al., 2020; Lyócsa et al., 2020). The COVID-19 also triggered stock market price declines, essentially following the World Health Organization (WHO) publishing its pandemic status, prompting negative abnormal returns in the stock market (Alali, 2020; Liu et al., 2020).

Research Methodology

The method of this research included two stages, particularly the process of data collection and data analysis. Data collection methods referred to qualitative studies that were taken from literature review and secondary data analysis. As the COVID-19 pandemic subject is comparatively fresh in Malaysia, this literature review relied profoundly on online sources such as news, guides issued by the ministry of health, book sources, articles and appropriate written materials, particularly those linked to stock performance developments and pandemic COVID-19.

Data Analysis Methods

During this stage, the researchers employed inductive and deductive methods. This method concentrates on the specific data to produce a general conclusion on a problem that applies (Inayah, 1990). Based on this inductive method, an analysis could conclude that the same impact will result if the same factors transpire. On the other hand, the deductive method enabled the researchers to determine that what happens during this pandemic is parallel or vice versa.

Stock Market Effects During the Covid-19 Pandemic

The essential purpose of this study was to examine how the COVID-19 epidemic affected all sectors in the Malaysian stock market. In addition, this study strived to examine the effects of financial market volatility on the Malaysian stock market. This study's results could benefit investors to recognise the impact of COVID-19 on the performance of various sectors in Malaysia.

Bursa Malaysia performance dwindled during the early MCO as investors sold securities out of concern for the expected economic impact caused by the virus (Aruna, 2020). The majority of COVID-19 research is currently more focused on specific countries (Ramelli & Wagner, 2020; 2020; Al-Awadhi et al., 2020) except for research by Ashraf (2020), which

adopted new confirmed cases and deaths daily from 64 countries. This research reported that the stock market reacted negatively to the growth of new confirmed cases. His study determined that the stock market was more reactive to new confirmed cases rather than an increase in the number of deaths. In general, adverse market reactions were more substantial in the early stages of the outbreak, while the stock market reacted promptly to COVID-19 news depending on the extent of the outbreak.

Ashraf's (2020) data was in line with Erdem's (2020), in which the COVID-19 outbreak had a significant adverse effect on the stock market. They indicated that the growth in the number of new cases on stock returns was about three times more than the growth in the number of deaths. Using the Freedom Index as an independent variable, investors revealed that the impact on stock market returns in independent countries was lower than that in less independent countries for each increase in cases per million. In addition, Lei and Wisniewski (2018) recognised that foreclosures are more likely to occur in autocratic countries (rather than democratic or independent countries) in the midst of economic challenges. There is a possibility of prolonged mismanagement of the company that could lower the firm's value in periods of uncertainty. Malaysia is a "flawed democracy" nation, relatively inferior in democratic practices and complete independence as assessed by the Economic Intelligence Unit's Democracy Index (The Economist, 2020). With a freedom index record of 52/100 (Freedom House, 2020), Malaysia is deemed partially independent or relatively low to moderate in measuring political rights and civil liberties.

Measures Taken

The Stock Market Stimulus and Performance Package has been executed to curb the consequences of the COVID-19 pandemic by the Malaysian government by originating a stimulus package worth RM295 billion. The RM250 billion Caring "caring package" or economic stimulus package (Povera, 2020) was declared on March 27, 2020, followed by a drastic six-month loan moratorium offered by Bank Negara Malaysia (BNM) to lessen the financial impact of the movement control order. Of that amount, RM128 billion was channelled into guarding the well-being of the people, and RM100 billion was imparted to support businesses, including small and medium enterprises (SMEs). On April 6, a unique stimulus plan worth RM10 billion was announced to assist small and medium enterprises (SMEs) in mitigating the impact of MCOs (Daim, 2020). An extra Short-Term Economic Recovery Plan (*Penjana*) with 40 initiatives worth RM35 billion was also declared on June 5 2020, to mitigate the epidemic's impact (Loheswar, 2020). The Malaysian government also took various agencies, such as banning short selling from reducing the capital market challenges caused by MCOs. The public received the announcement positively, and the positive feedback in the stock market was evident (Zainul, 2020).

Other economic circumstances also influence stock market reactions as globalisation has motivated economies worldwide to be more interdependent. It grew synchronisation in the global stock market and was mainly influenced by stock market movements in the United States. Consistent with the efficient market hypothesis (EMH), it suggests that investors will be more optimistic when they perceive the news positively impacting the market. On the other hand, if investors consider the news bad, then sentiment becomes somewhat pessimistic, and the market will show a downward bent.

Based on this hypothesis, stock prices reflect all available information, and stocks are always traded at their fair value on the stock exchange. On the other hand, according to the semi-strong EMH, it argued that security pricing has taken into account publicly available market information but not material non-public information. Superior gain is likely if there is non-public material information.

The pandemic struck the capital market, causing changes in trading many times over and emitting negative signals (bad news), which together ultimately prompted investors to sell their holdings (Corbet et al., 2020; Machmuddah et al., 2020). This situation is due to this COVID-19 epidemic by altering stock market dynamics, causing stock exchanges around the world to decline, leading to growing incompetence in the market (Dia et al., 2020; Lalwani & Meshram, 2020; Liu et al., 2020; Ngwakwe, 2020).

Phan and Narayan (2020) studied the COVID-19 pandemic and reported a perpetual rapid increase, as shown in increasing infection rates and mortality. Affected countries began to respond by shutting down economic activity and the people movement, banning travel, and performing stimulus packages to protect the economy and prevent job losses. The results of their study attested how stock prices could respond in real-time to pandemic situations, such as harsh news spreads and excessive market reactions. With the dissemination of more information, the public becomes more informed and will gradually understand the situation.

Akhtaruzzaman et al (2020) investigated the means of financial dissemination through financial and non-financial companies between China and G7 countries during the COVID-19 period. Empirical data recorded that such companies listed in the G7 countries experienced a significant increase in the conditional relationship between stock returns. Nonetheless, the magnitude of the correlation increase was much higher for finance companies during the COVID-19 response. The optimum hedging ratio developed significantly and, in many cases, was higher throughout the COVID-19 period.

The COVID-19 pandemic, compared to the last global financial crisis, has caused prominent fear among investors. In turn, vagueness also makes gold and bonds safer investment options. To mitigate the adverse effects of the pandemic, some immediate responses need to be taken, such as organising public funds to support the health system, financial support for individuals and small and medium enterprises, financial support for companies to avoid job losses, and liquidity guarantees in the domestic market. Also, Islamic finance can afford an alternative monetary system in sustaining communities and entrepreneurs moved by the COVID-19 epidemic.

Haroon and Rizvi (2020) analysed the relationship between sentiment generated by coronavirus-related news and equity market volatility. The ongoing coronavirus outbreak has generated unprecedented news coverage and outpouring of opinions in this era of rapid information dissemination. The uncertainty that arises in the financial markets prompts price fluctuations. The study unearthed an unusual panic due to outlet news related to developed volatility in the equity market. Results from individual economic sectors symbolised that news with supported panic contributed more to the reported volatility.

Zaremba et al (2020) examined government interventions intended at limiting the influence of COVID-19 on volatile stock markets. They established that non-pharmaceutical interventions significantly increased equity market volatility. The effect, nevertheless, did not depend on the role of the coronavirus outbreak itself. There are two types of steps that can be taken and are usually used chronologically, i.e. holding information campaigns in advance and cancellation of public events. Both of these measures can compose a vital contribution to overcoming growth volatility. Baig et al (2020) studied the effects of the COVID-19 pandemic on the microstructure of the United States equity market. The study described the dynamics of liquidity and volatility through an index that captured the various dimensions of the epidemic.

Therefore, they confirmed that the increase in confirmed cases of infections and deaths due to coronavirus was associated with a significant increase in market liquidity and volatility. Likewise, declining sentiment and restrictions and the imposition of movement control order contributed to liquidity and market stability deterioration. Zhang et al (2020) maintained that the rapid spread of the COVID-19 virus holds a dramatic impact on financial markets worldwide.

Coronaviruses have posed an unprecedented level of risk that affected investors to face substantial losses in a short period. This research successfully mapped the general pattern of country-specific risk and systemic risk at the global level of financial markets. In addition, policy interventions render some repercussions, such as the US decision to impose a zero per cent interest rate, unlimited easing, and the extent to which these policies could create uncertainty to global financial markets.

Conclusion

The volatility of each index is influenced by the level of volatility of the previous day. This decline is inseparable due to the adverse impact on stock performance due to the COVID-19 outbreak. Ergo, the investment basis is quintessential to studying the behaviour of the company's response to the effects of the COVID-19 pandemic for the current and subsequent years. Furthermore, one should grasp the development of the COVID-19 pandemic and the economy to avoid making the wrong judgment in every investment. Portfolios need to be continuously structured and results-tailored to investment manoeuvrings and situations in existing investment instruments. The government should also stimulate stock market stability by increasing the number of aid recipients in priority sectors and administering more intensive socialisation on the dangers and prevention of COVID-19. Germane measures need to be exercised by investors, including reducing investment losses by directing fundamental and technical analysis, stock portfolio management, identifying business sectors that are resistant to disease outbreaks, and exploring the most advanced knowledge on company states.

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