PLOS ONE

Do non-pharmaceutical policies in response to COVID-19 affect stock performance? Evidence from Malaysia stock market return and volatility

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Abstract

This paper examines the impact of non-pharmaceutical intervention by government on stock market return as well as volatility. Using daily Malaysian equity data from January 28, 2020 to May 31, 2022, the regression analysis with bootstrapping technique reveals that the government's response in combating the deadly virus through Stringency index has shown a positive direct effect on both stock market returns and volatility, and indirect negative effect on stock market returns. The study revealed that international travel restriction and cancelling public events are the major contributors to the growth of volatility when estimated for Malaysia stock market index. On the one hand, heterogenous impact is expected from the perspective of different sectors when the individual social distancing measures were taken into account in determining stock return and volatility. Apart from that, the robustness check for the main findings remains intact in majority of the regression models after incorporating daily COVID-19 death rate, log (daily vaccination) and day-of-the-week effect as additional control variable in alternative.

Introduction

The Coronavirus disease (COVID 19) is a newly discovered pneumonia-causing virus which originated from Wuhan, China has caused serious damage to the economy and in fact, it is the largest economic shock the world has witnessed in decades. This black swan event has put the global economy on halt due to its contagious virus and its ability to spread wide like a sporadic effect that leads to millions of deaths worldwide. Given the severity of transmission, World Health Organization (WHO) announced the outbreak of virus as a global pandemic on 11 March, 2020. It can be seen that the event threatened not only to human well-being but also the country economy. With the surge in the total confirmed cases worldwide, governments across countries enforced several measurements to combat the deadly disease from spreading with the hope that the infection and fatality rates would reduce. Strict policies such as social distancing measures, public awareness program, mass testing and quarantine policies as well