

The Impact of COVID-19 on Major and Emerging Stock Markets: Evidence on Feedback Trading

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Abstract:

In the case of positive feedback trading, investors buy after price increases and sell after price decreases. Negative feedback trading exists when traders buy low and sell high. This study investigates the presence of feedback trading in major and emerging stock markets by employing GJR-GARCH and E-GARCH models for COVID-19 period that involves high level of uncertainty. The selected major stock markets are: S&P 500 – US, TSX-Canada, FTSE 250 – UK, CAC 40 – France, DAX- Germany, NIKKEI 225 – Japan, SHANGHAI COMPOSITE INDEX – China, HANG SENG INDEX - Hong Kong and OMXS– Sweden; the selected emerging stock markets are: BVP-Brazil, IPC-Mexico, SNX-India, MOEX-Russia, MRV-Argentina and XU100-Turkey. Empirical findings reveal that positive feedback trading is observed only in Brazil and Mexico for the period of 31.12.2019-11.12.2020. However, for the period of 31.12.2019-30.04.2020 which the conditional variances exhibit boom and bust, feedback trading is prevalent in all stock markets except China, UK, Turkey and Argentina. On the other hand, negative feedback trading is observed only in Japan.

Keywords: Positive feedback trading, momentum trading, GJR-GARCH, E-GARCH

JEL Codes: G41, G11, C58, D53