

# Panel Data Evidence on the Interaction Between Foreign Investor's Trading Behavior and Stock Market Volatility during COVID-19

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## Abstract:

Using a panel data set on daily purchase and sale values of foreign investors and the leading national stock price indices, this paper investigates the relationship between foreign trading volume and stock price volatility and the response of this interaction to the Pandemic. Considering different country groups, we aim to document whether the impact of COVID-19 on the stock market volatility exhibits heterogeneity across developed and emerging economies. To investigate the effect of the Pandemic, we develop several pandemic severity indices providing information about the countries' exposure to the Pandemic and the severity of the Pandemic relative to the rest of the world. We document that the stock market is sensitive to the seriousness of the Pandemic. As the severity of the Coronavirus increases, the impact of foreign trading on the stock market's volatility is mitigated. Our results are robust to controlling the effects of the government safety measures regarding containment and closure, health system, and economic stimulus.

**Keywords:** stock market volatility, foreign trading, COVID-19, panel data, stringency index, containment index, government response index, the severity of the Pandemic, financial markets.

**JEL Codes:** E44, E58, F32, G15