

Analysis of the COVID-19 Epidemic's Impact on the Stock

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ABSTRACT

The COVID-19 epidemic has an impact on the stock, which has aroused a heated debate. This paper describes the factors influencing the stock price, how the COVID-19 influencing the stock prices and different industries performance influenced by COVID-19. The result shows that although both US and Hong Kong stocks have fluctuated significantly in recent years, the long-term outlook for the stock market is still good.

Keywords: Stock, advantage, disadvantages

1. INTRODUCTION

According to the latest news, the epidemic may affect the short-term market rhythm, but may not change the medium-term direction. On January 21, 2020, the epidemic worsened and the news flew all over the place. The concept stocks of influenza broke out in a comprehensive way, such as masks and influenza. In addition, the epidemic will have a short-term impact on the performance of the tourism industry, commercial real estate, entertainment, consumption and other industries, among which high-quality companies with high valuations in the past may usher in better buying opportunities.

The bigger impact is the buying and selling decisions made by the masses because of panic or fear of a short-term fall or rise. It is because of the short-term mood of fear and greed of the public, resulting in a short-term stock price boom and collapse. In addition, we can pay attention to the concept of medical disinfection stock, telecommuting concept stock, mask concept stock, etc.

2. BACKGROUND

2.1. The Domestic Economy

The epidemic has indeed caused direct economic losses, with an impact of about 2% to 4% on GDP[1]. This year is the final year for China to complete the building of a moderately prosperous society in all respects. If the economy is to double again during the 13th Five-Year Plan period, the country needs to introduce more policies to boost the economy. Stimulus

would have to exceed the \$4 trillion needed to meet the economic target.[2] The country's monetary, fiscal and industrial policies will benefit listed companies. This is the logic behind the recent rally in big infrastructure and cyclical stocks.[7]

2.2. The Real Economy

The epidemic situation will more or less affect the real economy. For example, the Spring Festival used to be a peak consumption season, but this Spring Festival, people stay at home, economic activities will inevitably decline. For example, the temporary closure of some factories will have a certain impact on production, and the production of products will also be affected in the short term. This will put pressure on the macro-economy in the short term, which is not conducive to the stock market. The impact of the outbreak on some industries and macroeconomic impact as a whole is limited, but for some industries, the short-term impact may be more obvious. The performance of these industries will be more affected, and the reaction of their stock prices will be more sensitive, and the related industries and enterprises affected by the epidemic situation will face greater pressure. The impact of the epidemic on small and medium-sized enterprises is very big, which may lead to the death of some enterprises. Listed companies have also been hit, but not bankrupt.

3. INFLUENCING FACTORS OF STOCK PRICE

3.1. Economic Factors

This means economic cycle, a country's financial situation, financial environment, balance of payments,

changes in the economic status of the industry, and adjustment of the country's exchange rate will all affect the rise and fall of stock prices. During the epidemic period, the country's income declined, the international financial environment was not good, and the GDP declined. So the price of stock may decrease (figure 1).



Figure 1. The price of stock in February 2020.[8]

3.2. Political Factors

The adjustment or change of national policies, the change of leaders, the frequent changes of international politics, the important power transfer of the state in the international arena, the wars between countries, the labor disputes in some countries, and even the wave of strike often lead to the fluctuation of stock prices. There was no change in policy and no war between countries during this period. So this factor doesn't affect the stock price.

3.3. Policies of Listed Companies

The value of the stock itself is the most basic factor to determine the stock price, which mainly depends on the operating performance, credit level, dividend distribution, development prospect and expected return level of the stock.

Some small and medium-sized enterprises can't afford the loss caused by the shutdown, such as employee wages, rent, utilities, they were forced to close during the epidemic. Also some listed companies, for example, LV. In consideration of epidemic prevention and control, LVMH has temporarily closed some stores of its brands in the United States since mid-March, mainly in New York state and California, where the epidemic is severe. In countries such as Italy, France and Spain, LVMH has not only temporarily closed some of its retail stores, but also closed some factories to reduce the risk of contagion. LVMH has also shifted some of its production capacity into the production of epidemic protection products, temporarily switching its beauty and perfume lines for Dior, Givenchy and Guerlain to hand sanitizers.[4]

3.4. Industry Factor

The status of the industry in the national economy, the development prospects and potential of the industry, the impact of emerging industries, and the status of Listed Companies in the industry, enterprise performance, operating conditions, changes in capital investment portfolio and leadership will affect the prices of relevant stocks.

Although the outbreak of some industries will be affected by the impact, but also some industry is benefited from the outbreak, such as medicine, mask industry, these industry products demand in explosive growth, it will rise, this is from Hong Kong recently pharmaceutical companies have been reflected, so still have money in the market, the market will still appear active.

3.5. Psychological Factors

The last one is psychological factors. Under the influence of various psychological state changes, investors often lead to emotional fluctuations, misjudgment, blindly following the general trend and crazy buying behavior, which is often an important factor leading to the sharp fall and rise of stock price. The outbreak of this epidemic is very sudden, people Little attention has been paid to the epidemic situation before the Spring Festival. However, with the development of the incident, the public's concern about the epidemic situation has changed from insufficient before the festival to excessive tension. So are investors in the stock market. Changes in psychological expectations will make many investors more pessimistic about the market, and even produce a certain degree of panic psychology, which will bring selling pressure.

But for some listed companies, competition will be

reduced after the epidemic, and their business conditions will be improved. Because they have a lot of capital to make it through the epidemic, even though they have lost a lot. Due to the bankruptcy of many small and medium-sized enterprises during the epidemic period, the market share of listed companies will be increased, and their stock prices will be greatly improved. For example, the Spring Festival used to be the peak season for consumption, but this Spring Festival, when everyone is staying at home, economic activities will certainly decline. Another example is that some factories are temporarily shut down, which will have a certain impact on production. In terms of product production, it will also be affected in the short term. This will indeed bring short-term pressure on the macro-economy and adversely affect the stock market.[6]

4. ANALYSIS OF DIFFERENT INDUSTRIES

The impact on some industries and the impact of the epidemic on the macro-economy is limited on the whole, but the short-term impact on some industries may be more obvious. Then, the performance of these industries will be greatly affected, and their stock price reaction will be more sensitive, and the related industries and companies affected by the epidemic situation will face greater pressure. It is necessary to consider different industries. According to The German Institute for Economic Research (DIW), novel Coronavirus has had a significant impact on the world economy, particularly on industry, but also on the service industries such as catering, hotel, tourism and aviation.

4.1. Pharmaceutical Sector

The cumulative abnormal return rate rose rapidly, after the general rise, the stock growth of pharmaceutical plate slowed down.

4.2. Tourism And Hotel Sector

The cumulative excess return rate shows a downward trend, which shows the investors' psychological expectation of investment. The impact of the epidemic on the tourism hotel sector is huge, and its impact can not be eliminated in a short period of time.

4.3. Transportation Sector

The cumulative excess return rate showed a downward trend, but the decline rate was significantly smaller than that of the tourism hotel sector. It is

predicted that in the later stage, the market transportation sector will start to rise and get rid of the trend of the epidemic.

4.4. Business Section

The impact of the epidemic situation is not very serious, consumer information is not reduced, with the alleviation of the epidemic situation, consumption will soon recover.

4.5. Automobile Sector

During the epidemic period, the stocks of automobile plate rose collectively, and the good news led to the strength of the whole plate.[3]

5. DISCUSSION

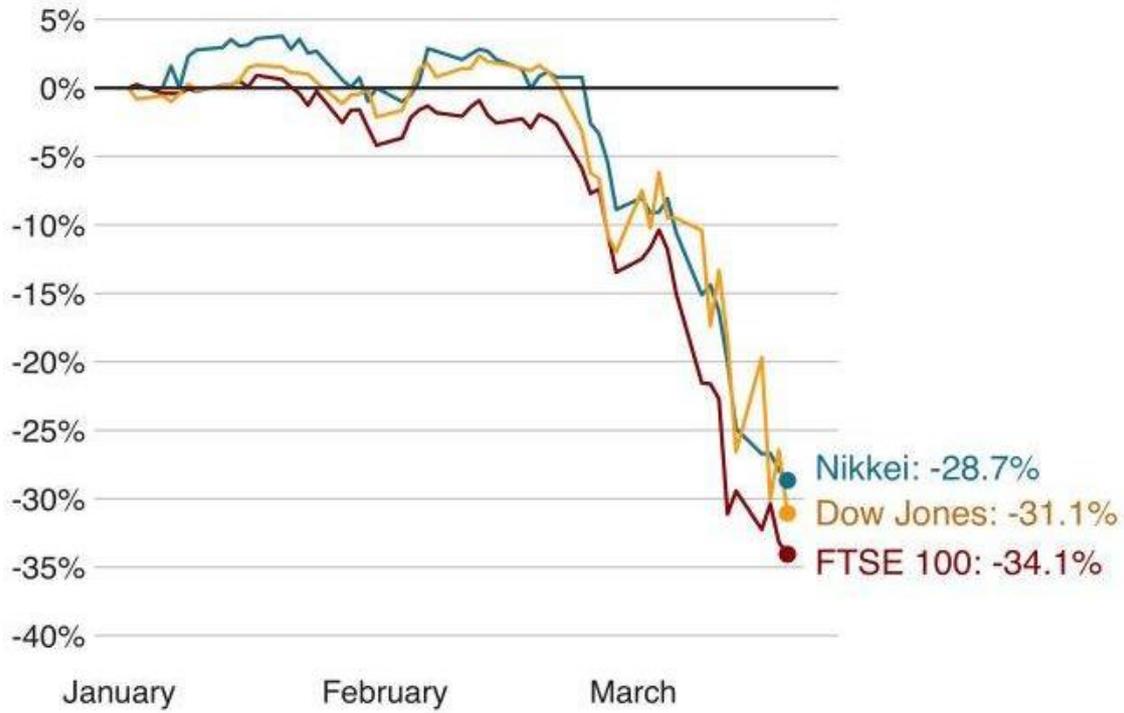


Figure 2. The impact of coronavirus on stock markets since the start of the outbreak[9]

The impact of the epidemic on the stock market is not great, and it will not lead to a sharp drop in the stock market. For example, according to historical experience, the 2003 epidemic also had an impact, but did not cause a sharp drop in the stock market. Instead, the Shanghai Composite Index rose. Looking at the year of the outbreak of influenza A in Mexico, the Mexican stock market index also rose. Therefore, historically, if there was no epidemic, the stock market would surely fall sharply. The market will certainly be affected in the short term, but after a short-term crash, the stock market will be affected. With the continuous improvement of the epidemic situation, it will enter a new rising market.

According to the history, the epidemic will only have a short-term impact on stock prices. In 2003, the SARS epidemic began to peak, MSCI China Index fell within 10%, rebounded 15% after one month and 30% after three months. From the beginning of 2009 to the peak of swine flu in Mexico, MSCI Mexico index fell within 5%, rebounded 15% after one month and 25% after three months. From the beginning to the peak of Ebola virus epidemic in Africa in 2014, MSCI Africa Index fell within 5%, rebounded 7% after one month and 8% after three months. From the beginning to the

peak of Zika virus epidemic in Brazil in 2016, the MSCI Brazil index fell within 3%, rebounded 15% after one month and 35% after three months.

6. CONCLUSION

Although both US and Hong Kong stocks have fluctuated significantly in recent years, the long-term outlook for the stock market is still good. Anxin Securities believes that the short-term negative impact on the stock market may be less than 10%, or even lower. The medium-term impact on the stock market is very small; The market trend is closely related to the number of cases, and the inflection point of case decline will be the turning point of market repair.[7]

The development speed of science and technology, medical equipment, and vaccines has increased, and the industry has been ordered to return to work, so as long as the government responds appropriately, people should remain vigilant. The virus outbreak for economic damage can be controlled in a reasonable scope, and the global economy and the stock market after the brief callback will be back on track as soon as possible. People should treat the epidemic with caution. On the other hand, we should not be overly pessimistic or

overly affected by the news of the epidemic. Instead, view the epidemic with a rational attitude and maintain our objective judgment on the stock market.

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