

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

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.