

# THE EFFECT OF CORONAVIRUS IN THE STOCK MARKET

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## Abstract

Living in the era of globalization made the spread of the virus to affect the entire world's economy. The stock market plays a huge role in the well-going of the economy and for this reason the changes that have happened due the pandemic affected on everyone's lives.

Stock market is a perfect investment for all because saving in the stock market is the safest way to produce returns over time that can surpass inflation and now it is being affected by the virus. It is a fact that the stock market and the economy are related together. Many industries have been badly hit by the virus but also some other companies have had major benefits and for this reason the financial market changed directly in an unexpected way. So the market itself reacts to these changes and also should continue to deal with problems that have existed in it before the virus.

Many of the problems surfacing now are actually derived from the great crisis that happened in 2008. Recession might happen if the situation goes on for too long but there are facts that also throw this down.

**Keywords:** Covid-19, Stocks, Epidemic, Economy, Industry, Impact.

## 1. Introduction

Stock market is one of the best ways for investors to make money while companies grow larger, and is pretty easy how it all works. Stock market is where different investors connect to buy and sell investments, like shares of ownership (stocks) in a public company. These buyers and sellers negotiate the prices and make trades through the network of exchanges of the stock market (the New York Stock Exchange or the NASDAQ). The exchange tracks the supply and demand of each stock which helps determine the price for each security, or the levels at which stock market participants are willing to buy and sell.

This is a great opportunity for everyone since investing in stock market is the best way to achieve returns that beat inflation over time. There are several benefits of investing in the stock market. First of all, stock ownership takes advantage of a growing economy. Also, it's very easy to buy stocks and just as easy to sell. Best of all, you can make money in two ways: Investors may let their stock

appreciate in value over time or they may prefer stocks that pay dividends to provide a steady income stream. The mathematical modeling and machine learning methods, strong as they are, are not able to accurately determine what the environment is going through. For example, we are living through a worldwide epidemic at the moment so the economic environment and the stock market have endured big changes, lows but also record growth highs. The Covid-19 situation has been posing a lot of threats to the stock market which we will see in the following paper.

This paper illustrates the exact situation of the stock market and how it is being affected by this virus that just appeared from nowhere. Since this big indicator of the economy faced some changes due to this pandemic the whole economy is affected too.

### 1.1. Connection between stock market and the economy.

In fact, the stock market is a leading econom-

ic indicator and we are aware of that. How it all works has become very easy now so everyone can trade stocks while they are lying in the living room couches and just by using their mobile phones. But it seems that the stock market wasn't ready to face the pandemic. Due to the spread of the virus people are forced to stay home and are not working anymore, which means that the business and corporation are not operation at the same way that they used to. Some services are still being provide but the majority of them cannot be performed if someone is not there physically and this causes a problem in how everything around us works. Several businesses in the US, including Twitter, CNN, and Amazon, have confirmed they are reducing travel for workers to try to reduce the transmission of the disease.

Stock market works based on predictions that are made. So if it is predicted that the value of a specific brand will be increase it affects the stock market supply and demand for this specific brand, so investor will tend to buy it know and sell it later when its value will be increased. But with this virus appeared from nowhere, even what will happen in the future cannot be predicted. It is obvious that the corporation and businesses will be directly affected, and somehow their value will be seen as lower. People are constantly concerned about being ill, about cutting paychecks, about being able to care for their children so it means that they need money even though they are not working and they have to find a solution in this condition. In this moment, economy is facing a crisis due to the virus, and since the goal now more than before is to stimulate economic growth, banks are trying to lower their interest parentage for loans by making it cheaper to borrow money. For this reason taking a loan can be seen as a better opportunity at this moment than investing the money that you have. The first thought is that you can use that money to invest later when the stock market becomes more stable. Since stock market is a strong indicator in the economy, instability in it means instability in the economy as well.

### **1.2. How stock market reacted to Coronavirus.**

Throughout recent days, the financial market has been in a rapid decline as concerns about the coronavirus have circulated across the global economy. The stock market reacted with alarming uncer-

tainty to the COVID-19 pandemic, as traders sold their stocks panicked out of terror. That is the reason why in the first three months of the year, financial markets across the world experienced unprecedented declines in the wake of a major sell-off related to coronavirus. The market has replied with significant drops to the recent unpredictability, causing four times in March a world-wide circuit breaker. Investors sold their shares in order to bring their capital out of the economy, or into "safer" assets and \$5 trillion was washed out of global financial markets last month.

Last month the Dow Jones Industrial Average and London's FTSE 100 saw their biggest quarterly drops since 1987, plunging 23% and 25% respectively. The S&P 500 lost 20% during the quarter, its worst since 2008. The drops come as authorities order a halt to most activity in an effort to slow the spread of the virus. Something like this never happened before so obviously there is no background on the stock market which is completely comparable in order to take some actions.

There is a reason behind this decrease in values of course. The ensuing uncertainty has led the financial market to experience the worst time since the crisis ended in 2008. Markets just don't want confusion, so companies have trouble preparing. And the introduction of a new infectious epidemic is going to fuel tremendous hysteria. Since the stock market works based on predictions and for this reason the values of stocks can sometimes be very high based only in the predictions made. It makes sense that part of the stock market decline is the result of stocks being overvalued, meaning the drop was partly just the market correcting itself the virus just pushed this to happen faster in time.

### **1.3. Is the stock market causing problems due to the pandemic, or is it just a sign of problems that already exist?**

In fact valuing things more than they really are is a problem even though that is how the stock market works. People that study the stock market and the economy predicted that something like this would happen, they knew based on how thing were going so far in the economy and they has warned us about a financial crisis. It is happening now. We have seen it over and over again,

especially with natural disasters such as coronavirus that stock market values tend to decline when a recession is close and we can say that it is the type of downward trend that is placing the world in recession

For America it all started in 1971 when the president of that time Richard Nixon took the dollar off the gold standard. That changed the way how everything has worked in the economy so far because from that time the US government (US Treasury) could now print money. So, US Treasury would sell a bond to the FED in US with a Bank of England or Bank of Japan etc., so they were basically pumping money into the system just to fix the economy. This effect the inflation of course and when in 80s when the big crash happened they just pumped more and more money into the system just to deal with the crash. That is how the economic problem started.

#### 1.4. Which stocks are being most affected?

It can't be just one, all of them are being highly affected. Without any research we can mention oil reserves which have collapsed as transport has been cut, factories throughout China have been stopped and production and exports have been halted. From recent overviews and analysis done to the stock market the industries that have taken the biggest hits are the travelling companies, leisure's, retailers, properties, catering, public transport and events. Since many countries are applying lockdown rules they also directly and/or indirectly affected these industries by rendering them undoable.

Reviewing a couple of cases around the world we read that: The Stoxx 600 Travel & Leisure index has fallen 50% in 2020, with the worst hit being cruises firm Carnival Plc, down 76%. Airlines EasyJet Plc, British Airways-owner International Consolidated Airlines Group SA and Air France-KLM have all plunged and are seeking state aid. In addition to events like the Glastonbury music festival and the Euro 2020 soccer tournament being delayed, corporate conferences have also been suffering from the virus outbreak. Firms which put those events on have therefore been slammed as more are canceled or postponed, with Informa Plc falling 56% and Hyve Group Plc down 78%.

Actually, not all parts of the stock markets have taken decisive hits from this outbreak, a couple of industries, for example grocers, spread betting, gaming, online casinos and telecoms, have actually seen major gain from it. Video-gaming offers both entertainment and a way to socialize online. Game-makers like Ubisoft Entertainment SA should benefit strongly from social distancing in the wake of the coronavirus's spread, adding that a 10-20% increase in sales over the period. As workers set up home offices, telecoms are set to benefit from an increase in data and phone usage. The week saw analyst upgrades for names such as Orange SA and KPN NV, while the Stoxx Telecommunications Index itself was the week's top-performing sector, rising 8.3%.

#### 1.5. Dealing with a recession?!

The virus is not just a matter of days, it is not something that goes around and then we continue repairing. This is a creeping disease and a crisis that possibly will last for months. There are several families in the country who are one paycheck removed from severe financial hardship. And what is so upsetting about some people right now is that they don't know whether they're going to get sick. They don't know whether they would be placed on furlough without compensation by their companies or bosses. And even though it turns out the infection isn't as serious as everyone thinks, the harm would be done anyway. It's occurring right now and communities don't quickly heal from it. World has always experienced those types of reactions from people and economy before and it may escalate to a recession.

So, the decrease of the value in stock market due to this virus is generally not a good thing. But the market is always fluctuating, and we can also see high values while day or weeks pass. On Apr 12 the president of United States, Donald Trump wrote on his twitter: THIS PAST WEEK the S&P 500 went up 301 points, or 12 percent, its best performance in 46 years. Also 2 days before this he wrote: " This week, in only for days, we had the biggest tock Market increase since 1974. We have a greate chance for the really big bounce when the Invisible Enemy is gone!"

Through the history it appears to peak before the start of an economic crisis and fall before an eco-

conomic rebound, the strange existence of the current COVID-19 outbreak has made it especially challenging to predict a potential stock-market rebound.

### 1.6. Keep protecting yourself.

Even with everything that is going on now, investors can protect themselves by:

1. Constantly checking the division of their assets.
2. Rebalancing the portfolio if it seems appropriate.
3. Considering a diversified investment strategy.
4. Also meeting a finance adviser always helps

Furthermore, the government should also take some actions according stock market because people taking hold of this downward trend and there has to be help for customers and companies, as everybody is flipping out.

### Conclusion

As we researched the impact of COVID-19 on the stock market we came up to many different conclusions and many of them reach to different points of view since we see that this situation is hitting negatively a large part of the market, but has also drastically improved other aspects of it and made some great improvements to industries that were 'left behind' so we just classified this situation as "Inevitable". We came across many speeches, documents that actually predicted the markets behaviour in the next pandemic but still no one was prepared to deal with a virus that experience mutation. The only reasonable 'solution' we have concluded by seeing how the whole world is reacting to the economic downfall, is that we have to analyse and do what's best with what we have in hand to stabilize the situation for ourselves so gradually we can reach an economic balance and recuperation from these damages. So keep yourself informed to take the right actions related to yourself first and also try to help in the community.

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