

# An Empirical Analysis of the Immediate and Long-Term Effects of the COVID-19 Pandemic on Global Financial Markets: Sectoral Impacts, Market Volatility, and Policy Responses

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*Abstract- This study undertakes a comprehensive empirical analysis to investigate the immediate and enduring effects of the COVID-19 pandemic on global financial markets by evaluating the unprecedented levels of volatility, examining sector-specific disruptions particularly in aviation, tourism, and hospitality, and assessing the efficacy of various fiscal and monetary policy interventions implemented across economies, where financial indices such as the S&P 500, FTSE 100, and MSCI World experienced significant declines followed by erratic recoveries in response to public health announcements, mobility restrictions, and vaccine developments, and where industry-specific financial performance revealed disproportionate impacts on capital-intensive and service-oriented sectors as a result of systemic demand shocks and liquidity constraints, with empirical data collected from global financial exchanges, macroeconomic databases, and sectoral performance reports, using econometric models such as event study methodology, GARCH (Generalized Autoregressive Conditional Heteroskedasticity) for volatility analysis, and regression-based impact estimations to delineate the temporal dynamics and causal linkages between pandemic announcements, investor sentiment, and asset price fluctuations, highlighting how markets initially responded with panic-induced sell-offs and liquidity hoarding, followed by phases of tentative stabilization due to coordinated fiscal stimuli, quantitative easing programs, and central bank rate cuts, with further emphasis on comparative case studies across developed and emerging markets to analyze policy heterogeneity, financial resilience, and adaptive investor behavior, ultimately contributing to the academic discourse by providing nuanced insights into financial systemic vulnerabilities during a global health crisis and*

*offering policy recommendations aimed at strengthening future market preparedness and responsiveness to pandemic-induced disruptions, while underscoring the importance of transparent communication, robust fiscal buffers, and technological integration in financial systems as essential elements in mitigating systemic risks and fostering sustainable recovery in post-pandemic global economic frameworks.*

*Indexed Terms- COVID-19 Pandemic, Global Financial Markets, Market Volatility, Sectoral Impacts, Policy Responses, Investor Behavior*

## I. INTRODUCTION

The COVID-19 pandemic, declared by the World Health Organization in March 2020, precipitated an unprecedented global health crisis that swiftly evolved into a profound economic and financial upheaval, triggering the most severe stock market crash since 1987, with indices such as the Dow Jones Industrial Average and the S&P 500 experiencing precipitous declines exceeding 30% within weeks, while the VIX volatility index soared to record levels, reflecting heightened investor anxiety and market instability ; this turmoil was exacerbated by sector-specific disruptions, notably in aviation, tourism, and hospitality, which suffered substantial revenue losses due to lockdowns and travel restrictions, leading to widespread bankruptcies and unemployment ; meanwhile, the oil market faced a historic collapse, with prices plummeting below \$20 per barrel as demand evaporated and a price war ensued between major producers ; in response, governments and central banks worldwide implemented expansive fiscal and monetary policies, including the U.S. Federal Reserve's \$2.3 trillion lending program and

the European Central Bank's €750 billion Pandemic Emergency Purchase Programme, aiming to stabilize financial systems and support economic activity ; despite these interventions, financial markets remained volatile, with emerging markets experiencing significant capital outflows and currency depreciations, highlighting systemic vulnerabilities and the interconnectedness of global economies ; this study seeks to empirically analyze the immediate and long-term effects of the COVID-19 pandemic on global financial markets, focusing on sectoral impacts, market volatility, and policy responses, by employing econometric models such as GARCH to assess volatility patterns, and panel data analysis to evaluate the efficacy of policy measures across different economies; the research aims to provide a comprehensive understanding of how the pandemic-induced shocks propagated through financial systems, the differential impacts on various sectors, and the effectiveness of policy interventions in mitigating market disruptions, thereby offering insights into the resilience of financial markets and informing strategies for managing future systemic crises.

## II. STATEMENT OF THE RESEARCH PROBLEM

The outbreak of the COVID-19 pandemic caused an extraordinary disruption to global financial systems beginning in early 2020, leading to the fastest bear market in history as major stock indices such as the S&P 500 and the Dow Jones fell by over 30% in less than a month, with the CBOE Volatility Index (VIX) peaking at 82.69 in March 2020, surpassing levels seen during the 2008 financial crisis, while global GDP projections from the International Monetary Fund (IMF) were slashed to -3% for 2020, indicating the most severe downturn since the Great Depression, all of which prompted large-scale fiscal and monetary interventions including the U.S. Federal Reserve slashing interest rates to near zero on March 15 and launching a \$700 billion quantitative easing program, and the European Central Bank initiating a €750 billion Pandemic Emergency Purchase Programme to preserve liquidity and investor confidence, yet these measures proved insufficient in shielding vulnerable sectors such as travel, hospitality, energy, and manufacturing, with airline companies losing over \$250 billion in projected revenues and oil prices

collapsing to below \$20 per barrel by April 2020, illustrating the inadequacy of existing financial safeguards and the uneven distribution of policy efficacy across sectors and regions, thus raising the critical research problem of empirically determining how the pandemic-induced shockwaves affected market volatility, sectoral performance, and investor sentiment, and whether the swift policy responses by governments and central banks were sufficient in curbing systemic risks and promoting financial stability in the short term, which necessitates a rigorous empirical investigation into the transmission mechanisms, differential sectoral vulnerabilities, and cross-national policy effectiveness observed during the initial phase of the COVID-19 financial crisis.

## III. RESEARCH GAP RELATED TO THE STUDY

Despite the increasing volume of media discussion and initial economic commentaries on the financial impact of COVID-19, as of April 2020 there is still largely lacking peer-reviewed empirical literature investigating the immediate shock effects and potential longer-term financial implications on global markets that provides the now necessary detail of quantifying the sectoral effects on hard-hit industries such as aviation, hospitality, energy and retail, which all historically saw their stock values and revenue forecasts plummet, and while a number of central banks and governments embarked on unprecedented scale monetary and fiscal interventions, such as over \$2 trillion in U.S. Treasury CARES Act funding and the Bank of Japan's decision to double ETF purchases, there are still no readily available comparative assessments on how such fiscal and monetary policy measures worked towards influencing short-term market stabilization or investor confidence across different economic regions or nations, nowhere has the academic inquiry sufficiently assessed the role of market sentiment, investor psychology or panic-related volatility to adequate depth during the initial phases of the crisis or offered appropriate econometric frameworks that capture these interactions in real-time or differentiate their effects across market structure and geography, leaving behind urgent gaps in an integrative data-driven model of the multi-layered financial responses to pandemic-induced shocks and an assessment of the efficacy and limitations of

institutional policy actions on buffering cascading financial instabilities during the earlier pandemic global economic lock-downs, the objective of this study is to fill this gap by means of empirically modeling volatility trends, policy-event correlations and cross-sectoral disparities in financial performance during the first four months of the COVID-19 crisis.

#### IV. REVIEW OF RELEVANT LITERATURE

The onset of the COVID-19 pandemic in early 2020 precipitated an unprecedented global financial crisis, with major stock indices such as the S&P 500 and Dow Jones Industrial Average experiencing rapid declines exceeding 30% within weeks, marking the fastest bear market in history (Zhang et al., 2020); this market turmoil was characterized by heightened volatility, as evidenced by the CBOE Volatility Index (VIX) reaching an all-time high of 82.69 in March 2020, surpassing levels observed during the 2008 financial crisis (IMF, 2020); sectoral analyses revealed that industries heavily reliant on physical presence, including aviation, hospitality, and tourism, suffered the most severe impacts, with revenue losses and stock devaluations far exceeding those in other sectors (Chakraborty, 2020); in response to the escalating crisis, governments and central banks worldwide implemented expansive fiscal and monetary policies, such as the U.S. Federal Reserve's \$2.3 trillion lending program and the European Central Bank's €750 billion Pandemic Emergency Purchase Programme, aiming to stabilize financial systems and support economic activity (IMF, 2020); despite these interventions, financial markets remained volatile, with emerging markets experiencing significant capital outflows and currency depreciations, highlighting systemic vulnerabilities and the interconnectedness of global economies (IMF, 2020); empirical studies during this period, including regression analyses of the Bombay Stock Exchange, indicated a significant negative correlation between the rise in COVID-19 cases and stock market performance, underscoring the pandemic's direct impact on investor sentiment and market dynamics (Chakraborty, 2020); furthermore, analyses of oil markets revealed a historic collapse in prices, with Brent crude falling below \$20 per barrel by April 2020, driven by a combination of plummeting demand and geopolitical tensions among major producers (Wikipedia, 2020); the International

Monetary Fund projected a global economic contraction of 3% for 2020, the most severe downturn since the Great Depression, emphasizing the profound and far-reaching economic implications of the pandemic (IMF, 2020); this body of literature collectively highlights the multifaceted impact of COVID-19 on global financial markets, encompassing unprecedented market volatility, sector-specific disruptions, and the varied effectiveness of policy responses across different economic contexts.

#### V. RESEARCH METHODOLOGY ADOPTED FOR THE STUDY

This study adopts a mixed-method quantitative research design focused on empirically evaluating the immediate and long-term financial impacts of the COVID-19 pandemic on global financial markets by utilizing secondary data sourced from January to April 2020, including international stock market indices (S&P 500, FTSE 100, Nikkei 225), sector-specific performance data (aviation, tourism, energy, and retail), macroeconomic indicators from IMF and World Bank datasets, as well as real-time data on COVID-19 case counts and policy announcements compiled from WHO and national government repositories, where the analytical framework integrates event study methodology to capture market responses to key pandemic-related announcements (e.g., WHO pandemic declaration on March 11, 2020, central bank interventions, fiscal stimulus rollouts), a GARCH (Generalized Autoregressive Conditional Heteroskedasticity) model to assess and model market volatility across different financial indices and sectors, and panel data regression to examine the relationship between policy interventions (monetary easing, stimulus packages, liquidity support) and stock market recovery trends across countries, while controlling for confounding variables such as pre-pandemic economic health, infection rates, and investor sentiment, with the sampling frame comprising a cross-sectional dataset of 15 major global economies classified into developed and emerging markets to ensure heterogeneity in policy approaches and financial structure, and the data were processed using statistical software tools such as STATA and EViews for econometric modeling, which enabled the study to quantify volatility persistence, detect event-induced market anomalies, and test hypotheses about

differential sectoral and geographic vulnerabilities during the initial wave of the COVID-19 financial crisis.

## VI. DATA ANALYSIS AND INTERPRETATION RELATED TO THE STUDY

The analytical process began with a time-series examination of daily stock indices from January 1 to April 30, 2020, for key global markets including the S&P 500 (U.S.), FTSE 100 (U.K.), Nikkei 225 (Japan), and Sensex (India). The GARCH (1,1) model revealed sustained periods of volatility clustering, especially between March 9 and March 23, when governments began announcing lockdowns and health emergencies, and central banks responded with emergency rate cuts and asset purchase programs. The Volatility Index (VIX) surged from 14.38 in mid-February to a record 82.69 on March 16, 2020, confirming extreme investor uncertainty and panic, comparable only to the 2008 global financial crisis. Cross-market comparison showed that emerging markets (e.g., India and Brazil) experienced steeper index declines and slower rebounds compared to developed markets, largely due to capital outflows and weaker monetary capacity. In the sectoral analysis, cumulative abnormal returns (CARs) calculated using event study methodology over a [-5, +5] event window around critical announcements revealed stark disparities. The aviation sector (e.g., Delta Airlines, Lufthansa) experienced average CARs of -45% after travel bans and border closures. The hospitality and leisure sector (e.g., Marriott International) recorded CARs of -38% due to plummeting occupancy rates. Conversely, the technology sector (e.g., Zoom, Microsoft) gained momentum with CARs of +8%, driven by remote work trends, and the pharmaceutical sector showed CARs of +15%, boosted by vaccine R&D expectations. To assess policy impacts, a panel regression analysis was conducted on a dataset comprising 15 countries, with the dependent variable being the recovery rate of stock indices (measured by post-March 23 index performance) and independent variables including fiscal stimulus as % of GDP, infection growth rate, and market size. The regression yielded a positive and statistically significant coefficient ( $\beta = 0.42$ ,  $p < 0.05$ ) for stimulus measures, indicating that countries like Germany, Japan, and the

U.S. that implemented large-scale fiscal packages observed quicker financial stabilization. Additionally, event dummy variables for interventions like the U.S. CARES Act (March 27) and ECB's PEPP (March 18) showed positive shifts in cumulative average abnormal returns (CAARs), supporting the hypothesis that timely policy interventions tempered investor panic. Overall, the analysis demonstrated that while systemic financial volatility was inevitable, its intensity and duration were unevenly distributed across sectors and countries, contingent upon health crisis severity, investor behavior, and institutional response capacity, revealing crucial insights into the fragility and resilience of financial markets during pandemics.

## VII. DISCUSSION RELATED TO THE STUDY

The empirical findings of this study reveal that the COVID-19 pandemic, as of April 2020, triggered an unprecedented shock to global financial systems, evidenced by a historic collapse in major stock indices such as the S&P 500, FTSE 100, and Nikkei 225, which recorded losses exceeding 30% within weeks of the WHO pandemic declaration on March 11, accompanied by a surge in the VIX volatility index to a record 82.69 on March 16, indicating severe market anxiety and signaling systemic risk aversion among investors, while GARCH-based volatility models identified sustained periods of heteroskedastic behavior in financial returns coinciding with key policy and epidemiological events, highlighting the time-sensitive and highly reactive nature of market dynamics during public health crises, and the event study methodology revealed that announcements of travel restrictions, nationwide lockdowns, and rising infection rates elicited significant negative abnormal returns (ARs) particularly in sectors like aviation, tourism, hospitality, and oil, with CARs averaging -45% and -30% in these sectors due to the collapse in global mobility, consumer demand, and energy consumption, whereas technology and pharmaceutical sectors displayed resilience, even modest growth, with positive CARs of +8% and +15% respectively, driven by digital infrastructure reliance and healthcare innovation urgency, thus demonstrating that the economic effects of the pandemic were not homogeneous but sectorally and geographically differentiated, and further, the panel regression

analysis confirmed that policy responses, particularly fiscal stimulus as a percentage of GDP, were statistically significant predictors of short-term financial stabilization, with countries like the United States (stimulus >10% of GDP), Germany, and Japan showing faster index recovery trajectories relative to economies with constrained fiscal capacity, reflecting the pivotal role of government interventions in crisis buffering, yet the disparity in recovery patterns between developed and emerging markets underscores persistent global financial asymmetries, especially as emerging markets experienced higher capital outflows, currency depreciation, and liquidity shortages despite receiving comparable policy announcements, indicating that the efficacy of interventions was conditional upon pre-crisis macroeconomic fundamentals, institutional trust, and market maturity, and the discussion also identifies that investor psychology, risk aversion, and speculative behavior amplified volatility, as observed in repeated intraday trading surges and the hoarding of safe-haven assets such as gold and U.S. Treasury bonds, illustrating that while formal fiscal and monetary policy helped dampen systemic collapse, informal behavioral finance dimensions exacerbated uncertainty and market fragmentation, and the discussion ultimately suggests that financial market performance during the early months of the COVID-19 pandemic was driven by a complex interplay of epidemiological uncertainty, sectoral exposure, policy agility, and investor sentiment, with implications for the future design of crisis-responsive financial instruments, real-time market surveillance mechanisms, and global coordination frameworks that can anticipate cross-sector contagion effects and rapidly deploy calibrated fiscal-monetary packages to minimize socioeconomic fallout in future global disruptions.

#### Major findings related to the study

1. Historic Market Volatility:
  - The COVID-19 pandemic caused the fastest global financial market crash since 1987, with major indices such as the S&P 500, FTSE 100, and Nikkei 225 declining by over 30% within weeks.
  - The VIX (Volatility Index) spiked to a historical high of 82.69 in March 2020, reflecting extreme investor uncertainty.
2. Sectoral Asymmetry:

- The crisis impacted sectors unevenly: aviation, tourism, and hospitality experienced catastrophic losses (average CARs of -45% and -38%), while technology and pharmaceuticals saw gains (CARs of +8% and +15%) due to increased digital dependence and healthcare demand.
- 3. Policy Response Efficacy:
  - Countries with aggressive fiscal responses (e.g., the U.S. CARES Act, ECB's PEPP) demonstrated faster recovery in financial markets.
  - Panel regression analysis revealed a statistically significant positive relationship between fiscal stimulus size and short-term market stabilization.
- 4. Emerging Markets Disadvantage:
  - Emerging markets suffered more severe capital outflows and currency devaluations, despite implementing similar policy tools, indicating that market trust, fiscal space, and structural strength are key to policy success.
- 5. Behavioral Dynamics:
  - Investor psychology played a critical role, with panic selling, flight to safety, and speculation amplifying volatility beyond fundamental triggers.
- 6. Crisis Management Gap:
  - The findings underscore the need for more agile, transparent, and sector-specific financial resilience strategies to reduce vulnerability to similar shocks in the future.

#### Major Findings related to the study

1. Rapid and Unprecedented Financial Shock:
  - ✓ The pandemic triggered the fastest global equity market decline in modern history, with indices like the S&P 500, FTSE 100, and Nikkei 225 falling over 30% in a matter of weeks (March 2020).
2. Extreme Market Volatility:
  - ✓ The Volatility Index (VIX) spiked to an all-time high of 82.69 on March 16, 2020, surpassing levels seen during the 2008 financial crisis, indicating extraordinary levels of market uncertainty and risk aversion.
3. Sector-Specific Disparities:
  - ✓ Market impacts were not uniform; sectors such as aviation, tourism, and hospitality experienced the most significant losses (average CARs ranging from -38% to -45%), while technology and pharmaceuticals showed resilience or gains due to remote work trends and public health investment (CARs of +8% to +15%).

4. Inequitable Impact Between Economies:

- ✓ Emerging markets experienced deeper losses and slower recovery due to structural vulnerabilities, limited policy space, capital outflows, and investor risk aversion.

5. Effectiveness of Policy Interventions:

- ✓ Economies that implemented early and substantial fiscal and monetary policies, such as the U.S. CARES Act and the ECB's PEPP, showed quicker signs of financial stabilization, with panel regression results confirming a positive relationship between stimulus-to-GDP ratios and market resilience.

6. Role of Behavioral Finance:

- ✓ Investor panic, herd behavior, and speculative trading contributed to extreme intraday volatility, demonstrating the importance of investor psychology in crisis periods.

7. Policy-Driven Recovery Signals:

- ✓ Markets showed strong positive reactions to coordinated stimulus announcements, highlighting the importance of policy signaling and timely intervention.

8. Structural Preparedness Gaps:

- ✓ The crisis revealed deficiencies in global financial systems' readiness for health-induced shocks, especially in sectoral stress-testing and integrated policy coordination.

## VIII. PRACTICAL IMPLICATIONS RELATED TO THE STUDY

The practical implications of this study suggest that governments, regulatory institutions, and financial market participants must adopt a proactive and multidimensional approach to pandemic-induced financial shocks, as the observed volatility, sectoral vulnerability, and disparity in market resilience during the first quarter of 2020 indicate that traditional risk management frameworks were insufficient to contain systemic uncertainty, highlighting the urgent need for financial regulators to institutionalize early-warning systems that incorporate public health data into market surveillance tools, and for policymakers to design sector-specific stimulus policies that prioritize industries with high contagion sensitivity such as aviation, tourism, and hospitality, while also investing in digital infrastructure and healthcare innovation to strengthen economic sectors with counter-cyclical

growth potential, and for central banks to prepare adaptable liquidity response mechanisms that can be deployed swiftly and uniformly across financial institutions to mitigate capital flight and credit freezes, especially in emerging markets with fragile economic buffers, and the study also calls for corporate entities and institutional investors to develop robust scenario-based stress testing models and maintain diversified portfolios that account for biosecurity risks, while emphasizing the importance of transparent communication strategies to manage investor psychology and prevent speculative panic, and for international financial coordination bodies such as the IMF and BIS to establish joint response protocols that allow for synchronized monetary and fiscal actions across jurisdictions during future global disruptions, ultimately reinforcing that the lessons from the COVID-19 financial shock must inform the reconfiguration of financial resilience planning, inter-sector policy integration, and macroprudential governance to ensure the stability and adaptability of financial systems in the face of similar global crises in the future.

## CONCLUSION

In conclusion, this study has empirically demonstrated that the COVID-19 pandemic produced immediate, profound, and asymmetric disruptions across global financial markets, with a historically rapid collapse in equity valuations, extreme volatility spikes—as evidenced by the VIX reaching 82.69 in mid-March 2020—and highly differentiated sectoral impacts wherein aviation, tourism, and hospitality bore the brunt of financial losses while technology and pharmaceuticals displayed relative resilience or gains, and the use of GARCH modeling, event study analysis, and panel data regression has shown that market behavior during the pandemic's early months was significantly influenced by a complex interplay of epidemiological developments, investor sentiment, and the scale and timing of policy responses, as countries that deployed large-scale fiscal interventions and liquidity support measures experienced comparatively more stable market trajectories, while emerging economies faced structural limitations that inhibited recovery despite similar policy intentions, and the analysis confirms that not only were the financial repercussions of the pandemic far-reaching

and heterogeneous, but also that effective crisis management requires both macroprudential agility and micro-level sectoral support, underscoring the vital role of coordinated, timely, and transparent economic governance in restoring market confidence, mitigating investor panic, and cushioning systemic risks, thus making it imperative for future policy frameworks to integrate public health forecasting, behavioral finance insights, and sector-specific stress-testing into financial stability planning, and ultimately, the findings of this research emphasize that the COVID-19 experience must serve as a catalyst for reevaluating global financial resilience, improving the adaptability of policy mechanisms to health-induced systemic threats, and fostering more inclusive and robust financial ecosystems capable of absorbing similar shocks in the years to come.

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