

Investor Psychology, Housing Prices, and Stock Market Response to Policy Decisions During the Covid-19 Recession in the United States

Authors : Ly Nguyen, Vidit Munshi

Abstract : During the Covid-19 recession, the United States government has implemented several instruments to mitigate the impacts and revitalize the economy. This paper explores the effects of the various government policy decisions on stock returns, housing prices, and investor psychology during the pandemic in the United States. A numerous previous literature studies on this subject, yet very few focus on the context similar to what we are currently experiencing. Our monthly data covering the period from January 2019 through July 2021 were collected from Datastream. Utilizing the VAR model, we document a dynamic relationship between the market and policy actions throughout the period. In particular, the movements of Unemployment, Stock returns, and Housing prices are strongly sensitive to changes in government policies. Our results also indicate that changes in production level, stock returns, and interest rates decisions influence how investors perceived future market risk and expectations. We do not find any significant nexus between monetary and fiscal policy. Our findings imply that information on government policy and stock market performance provide useful feedback to one another in order to make better decisions in the current and future pandemic. Understanding how the market responds to a shift in government practices has important implications for authorities in implementing policy to avoid assets bubbles and market overreactions. The paper also provides useful implications for investors in evaluating the effectiveness of different policies and diversifying portfolios to minimize systematic risk and maximize returns.

Keywords : Covid-19 recession, United States, government policies, investor psychology, housing prices, stock market returns

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