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Herd Behavior in Indian Stock Market : Upshots of COVID-19 Pandemic

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Abstract

The study assesses the herd behavior in extreme market conditions induced by the pandemic by using dummy variable OLS regression. Empirical evidences from daily returns of S&P BSE 500 indicate significant herd behavior during the pandemic while anti-herding in Pre-Covid situation. The analysis posits the evident association of "Covid-19 outbreak" event and the existence of herd behavior in Indian stock market. The pandemic has triggered economic uncertainties that in turn lead to herding among investors and traders. Further the study indicates significant herding in extreme up/down market returns, high volatility condition in Covid-19 outbreak as compare to Pre-Covid situation. Results also depicts reverse herding in case of low volatility during the pandemic. While trading volume and herding is unrelated to each other in both Pre-Covid and during Covid situation.

JEL Code : C58, G41, G11
Keywords : Herd behavior; Covid-19; Market Conditions; Trading; Volume; Volatility; Returns; Stock Market; BSE; India

I. Introduction

COVID-19 IS A transmissible disease that originally started in the city of Wuhan, China (Al-Awadhi, AlSaifi,Al-Awadhi and Alhammali, 2020). It has shaken the economy of almost all the countries including India. In India, total confirmed cases of COVID-19 are 32,512,366 with 4,35,758 deaths as on 25 August 2021 (WHO). Various studies have looked into the impact of pandemic outbreak on capital markets and concluded that the devastating pandemic has led to extreme uncertainty as well as skyrocketed investors anxiety. Studies depicted that stock returns have become negative and highly volatile due to

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