Guest editorial: Uncertainty and asset prices: evidence at times of COVID-19 and beyond

The worldwide COVID-19 pandemic, which has dragged on for three years, has not only upended social structures, but also heightened uncertainty in the public and private sectors, causing prolonged supply chain interruptions, output setbacks, high inflation rates and changes in labor market structure. The prolonged duration of various stimulus packages on the part of different governments has assisted to rescue many businesses suffering from illiquidity, but the recovery has been uneven across different sectors. Record government spending has helped many consumers, but it has also created tremendous inflationary pressure. The pandemic-induced uncertainty has had a profound impact on investors' decision-making, household spending and government policy formulation, and this impact persists to this day.

This special issue collects papers that capture investor and household behavior in response to price changes, volatility fluctuations and the uncertainty created by COVID-19, as well as reactions to government policy changes. To provide context, the following statistics present a brief summary of economic data for major markets during the pandemic period from January 2020 through August 2022 (2020M1–2022M8).

As shown in Table 1, the data consist of growth rates of output, CPI and asset price indices, measured as the log-difference times 100 in level. The statistics reported in Table 1 indicate that COVID-19 resulted in output setbacks for major European countries (UK, BD, FR); however, CN and TK made substantial gains. The inflation rates, ranging from 0.99 (JP) to 82.20% (TK), are generally higher than pre-pandemic levels. The economic data for countries such as BR, FR and BD are consistent with Fama's hypothesis (1981), which posits a negative relationship between output growth and inflation, while the remaining countries align with the Phillips curve theory, which maintains a positive relationship between output growth and inflation (Ram and Spencer, 1983).

The performance of stock returns indicates that four European countries (FR, BD, IT, UK) plus BR have experienced negative returns, while other countries have seen positive returns, potentially driven by monetary easing. Real stock returns, measured by subtracting the inflation rate from the stock returns, further highlight the negative relation between stock returns and inflation. From this vantage point, the US also joins the above group of five countries with negative real stock returns. Noticeably, only CA and the Asian countries show positive real stock returns, indicating that the inflationary effects on these countries were relatively mild. The evidence shows that real stock returns and inflation for the US, FR, BD, UK, IT and BR are negatively correlated with inflation, which is consistent with the recent findings of Chiang (2023) on stock return uncertainty resulting from rising inflation. Moreover, data indicate that both oil and Bitcoin hold positive value, suggesting that these two assets can be used to hedge against inflation. However, the negative value for the real return on gold does not share this characteristic.

Having reviewed these statistics, each paper in this special issue aims to explore the behavior of economic agents and offers underlying empirical evidence from the period during and after COVID-19. A brief summary of each paper is presented below.

Bali, Brown and Tang investigate whether disagreement on investment opportunities has a significant impact on the cross-sectional pricing of individual stocks. They report a

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	Output growth%	Inflation %	Stock/Asset return	Real returns
US	3.25	13.35	10.59	−2.76
CA	1.95	11.54	16.00	4.46
FR	−1.40	8.12	−0.76	−8.88
BD	−5.47	12.16	−0.92	−13.08
IT	1.50	10.16	−8.89	−19.05
UK	0.00	11.75	−0.02	−11.77
JP	1.62	0.99	19.11	18.12
CN	20.00	1.55	8.07	6.52
IN	1.02	12.78	35.57	22.79
KO	7.38	8.18	11.73	3.55
TK	16.21	82.20	90.23	8.03
BR	−0.92	18.09	−5.98	−24.07
Gold price (USD)		*13.35*	*4.90*	*−8.45*
Oil Price		*13.35*	*43.29*	*29.94*
Bitcoin (USD)		*13.35*	*76.27*	*62.92*

Source(s): Economic Data from Federal Reserve Bank of St. Louis

Table 1. Changes in output growth, inflation and assets returns: 2020M1–2022M8

significant disagreement premium of 7.2% per annum, induced by the outperformance (underperformance) by stocks with negative (positive) disagreement beta. Their results support the mispricing hypothesis that the positive (negative) disagreement beta provides an indirect way to measure disparate opinions and overpricing (underpricing). Thus, the risk- and mispricing-based explanations of the disagreement premium are not mutually exclusive. They further show that the predictive power of the disagreement beta is not driven by the market volatility beta, the economic uncertainty beta or the policy uncertainty beta, implying that a negative premium of economic disagreement in the cross-section of individual stocks is distinct from the negative volatility risk and uncertainty premia.

Tutuncu investigates whether retail investor dominance coupled with foreign investor aversion has a significant impact on initial and short-term returns. This paper reports the following findings. First, pandemic IPOs provide significantly larger short-term returns than pre-pandemic IPOs as measured up to a one-month timeframe. Second, underpricing during the pandemic is not significantly greater due to a 10% daily price limit, which leads to a gradual release of retail investor appetite and an increase in stock prices in the short term. Third, retail investors controlled 66% of the market during the pandemic compared with 35% previously, while foreign institutional investor market share declined from 53% to 6%. Fourth, greater returns during the pandemic are associated with smaller retail investment per capita, while domestic institutional investment is associated with lower returns as typically expected by institutional investors.

Based on the Government Response tracker (oxCGRT) index, the strictest policy responses to the COVID-19 pandemic using data from January 2020 to May 2022 are associated with the actions taken by Italy, China, Hong Kong, Greece, Austria, Peru, Singapore and Malaysia. Owjimehr and Dastfroosh raise the question of whether this level of response reduced the uncertainty of the stock market. The authors use the GARCH, EGARCH and TGARCH models to examine the effect of the oxCGRT index and the growth rate of COVID-19 on stock markets. Their evidence shows that among the countries under investigation, the oxCGRT index reduced uncertainty in the stock market only in Malaysia and Singapore. This result suggests that an appropriate pattern of applying government policy responses is more important than the degree of stringency.

Yan, Jeon and Wu examine the banks' contribution to systemic risk during the outbreak of the COVID-19 pandemic. Using monthly panel data from approximately 900 commercial

banks in 39 advanced and emerging economies, they report that the outbreak of the COVID-19 pandemic significantly increased banks' contribution to systemic risk around the world. The study also finds that the COVID-19 pandemic had a more pronounced impact on banks' contribution to systemic risk in developed countries than that in emerging economies.

Gharbi, Trichilli and Boujebéne analyze the dynamic volatility spillovers among investors' behavioral biases, macroeconomic instability factors and the value-at-risk of the US Fintech stock market before and during the COVID-19 pandemic. Using methodologies proposed by Diebold and Yilmaz, this study reports the wavelet coherence results and shows that during the COVID-19 period, there was a strong co-movement among value-at-risk and each selected variable in the interim and long-run scales. Evidence based on Diebold's and Yilmaz's (2012) method indicates that the total connectedness index rose significantly during the COVID-19 period.

Ghosh and Hossain examine the impact of economic and trade policy uncertainty on the US and Chinese stock markets. Attention is also given to an examination of the hedging and safe-haven properties of US and China stocks against the economic and trade policy uncertainties of both countries. Evidence shows that economic and trade policy uncertainty between the US and China is quite sensitive and reveals high volatility clustering effects on DJChina88 and DJUS. Conversely, compared with Chinese economic and trade policy uncertainty, the US stock market indexes demonstrate both hedging and safe-haven properties across the COVID-19 and Russia–Ukraine crises. In contrast, among the Chinese stock markets, only DJShenzhen and DJShanghai stock indices might provide hedging and safe-haven properties against the US economic and trade policy uncertainties; however, the DJShenzhen (DJChina88) stock market shows weak hedging and safe-haven properties (hedging benefits) against Chinese trade policy uncertainty (Chinese economic policy uncertainty).

Aftab, Haq and Baity examine the potential of cryptocurrencies as a hedge or safe haven against economic policy uncertainty. This study finds that the most dominant cryptocurrencies can play a hedging role against economic policy uncertainty with some exceptions and may have served as a safe haven during the COVID-19 pandemic. As a result, investors may benefit from using cryptocurrencies as a risk management tool during times of uncertainty.

Zhang, Liu and Zhao investigate the impact of COVID-19 on household savings in China. Their study finds that households in the most affected cities tended to save more during COVID-19 but less when the pandemic eased. This result aligns with the findings of Kun *et al.* (2013) and Filipski *et al.* (2015), which indicate that households become more pessimistic during and after the COVID-19 pandemic. The findings are consistent with the precautionary behavior as noted in a heterogeneity analysis, which shows that specific households dramatically change their savings behavior. The findings provide some insights for policymakers who are concerned with implementing appropriate policies aimed at boosting consumption and economic activities after COVID-19.

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