SHORT-TERM OVERREACTION DURING COVID-19: A STUDY ON THE INDIAN STOCK MARKET

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ABSTRACT

The study examines the short-term overreaction effect in the Indian stock market during COVID-19. The Efficient Market Hypothesis (EMH) suggests prices are a function of market information, but overreaction, a behavioral anomaly, contradicts this. While evidence exists for overreaction globally, its presence in India, especially during COVID-19, is understudied.

This event study uses a market model to assess overreaction around two COVID-19 events: the March 2020 lockdown and the February 2021 budget. Findings reveal significant overreaction for the first 20 days following each event, with investors displaying asymmetric reactions to both events.

Further analysis explores how firm-specific characteristics influence overreaction. Beta (stock sensitivity) and firm size (average total assets) are the only factors consistently significant across positive and negative events. Institutional ownership and share turnover impact abnormal returns during negative events, while firms with higher leverage are less prone to overreaction during positive events.

These results offer insights into investor behavior during extreme market volatility. By identifying factors influencing overreaction, this study contributes to understanding market efficiency and investor sentiment in the Indian context.

Keywords: Overreaction effect, Event study, Indian stock market, COVID-19

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