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The Impact of Market Liquidity on The Stock Returns During the Covid-19 Outbreak: New Evidence from Vietnam

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Abstract

Research aims: This article scrutinizes the impact of market liquidity, as gauged by market tightness and depth, on the stock returns of non-financial companies listed on the Vietnam Stock Market during the COVID-19 outbreak.

Design/Methodology/Approach: Employing panel data regression models, this investigation scrutinizes a dataset comprising 647 non-financial listed companies in the Vietnamese stock market from January 30, 2020, to December 31, 2021.

Research findings: The results show a statistically significant negative relationship between market tightness and stock returns. Additionally, market depth demonstrates a noteworthy positive correlation with stock returns. These findings suggest that stocks with lower liquidity tended to yield higher profits during the COVID-19 pandemic. Notably, this phenomenon was accentuated during periods of lockdown. The study also disclosed a noteworthy divergence in the influence of market liquidity on stock returns among companies listed on the HOSE and HNX stock exchanges. Further analysis unveils a marked variance in the impact of market liquidity on stock returns when examined across different sectors and market capitalizations. Notably, the liquidity of the service and manufacturing sectors has the strongest influence on stock returns during COVID-19.

Theoretical contribution/Originality: No published studies have investigated the impact of market liquidity on the stock returns of companies listed in emerging markets, such as the Vietnamese stock market, during the COVID-19 outbreak. This study marks the initial investigation into the impact of market liquidity, evaluated through market tightness and depth, on the stock returns of non-financial firms listed on the Vietnam Stock Market during the COVID-19 outbreak. An analysis of market liquidity's influence on stock returns is undertaken, considering industry-specific nuances and distinctions in market capitalization.

Practitioner/Policy implications: Our study demonstrates the critical role of liquidity and the attractiveness of low-liquidity stocks during the COVID-19 outbreak in Vietnam. The research results provide new and significant evidence for the field of Decision Science. Through an in-depth analysis of market fluctuations amid the pandemic, the article offers essential insights into the intricate interaction between market liquidity and stock returns, uncovering valuable implications for policy decisions and investment strategies for individual investors and organizations.

Research limitations: This study focuses on listed non-financial enterprises, so the results may not be generalizable to the whole market. Future studies may consider adding more financial firms to the sample.

Keywords: COVID-19, Stock returns, Market liquidity, Market depth, Market Tightness.

JEL Classification Codes: G10; G14; G15; C23.

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