COVID-19: a Negative Shock to Sentiment

Figure 1 plots the weekly individual investor sentiment measure from the American Association of Individual Investors (AAII). The vertical line indicates February 24, 2020, the date of the COVID-19 outbreak.

There was a large decline in individual investor sentiment after the COVID-19 outbreak.

Hypotheses

- Hypothesis 1: CEF discounts increase on average after the COVID-19 outbreak.
- Hypothesis 2: CEFs more subject to individual investor sentiment experience a larger increase in discounts after the COVID-19 outbreak.

Results

Table 2 shows that CEFs with higher $Beta^2$ experienced a larger increase in discounts after the COVID-19 outbreak, which supports Hypothesis 2.

Parallel trends assumption satisfied:

- Robust to using retail ownership as an alternative measure of exposure to individual investor sentiment.
- Robust to using March 11, 2020 (when the WHO announced COVID-19 as a pandemic) as an alternative date of the COVID-19 outbreak.

- Unlike to be driven by alternative channels such as the liquidity, expense, payout, and leverage channels.

References


Tab. 1: Effect of COVID-19 on CEF Discounts.

<table>
<thead>
<tr>
<th>Time</th>
<th>Discount</th>
<th>Beta</th>
<th>Controls</th>
<th>Fund Fixed Effects</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>POST</td>
<td>4.33***</td>
<td>3.83***</td>
<td>Yes</td>
<td>Yes</td>
<td>4.03***</td>
</tr>
<tr>
<td>(3.25)</td>
<td>(7.58)</td>
<td>(4.82)</td>
<td>(4.73)</td>
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</tbody>
</table>

Tab. 2: Main Difference-in-Differences (DiD) Results.

<table>
<thead>
<tr>
<th>Discount</th>
<th>Beta</th>
<th>Controls</th>
<th>Fund Fixed Effects</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>POST</td>
<td>0.62***</td>
<td>0.77***</td>
<td>Yes</td>
<td>0.72***</td>
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<tr>
<td>(4.15)</td>
<td>(3.98)</td>
<td>(3.96)</td>
<td>(3.50)</td>
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</tbody>
</table>

To test Hypothesis 2, the following DID specification is used:

$$Discount_t = \beta_0 Beta^2_{it} \times POST_t + \beta_1 X_{it} + \gamma_t + \epsilon_t.$$  

Results Cont.

Fig. 3: Trends in discounts for high sentiment beta and low sentiment beta CEFs.

-$\gamma$ **Economic Perspectives** 21, 129–152.