


# Chapter 7


## The Impact of COVID-19 on Financial Markets and the Role of Regulation in Recovery

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### ABSTRACT

*The COVID-19 pandemic triggered unprecedented disruptions in global financial markets, characterized by steep asset price declines, heightened volatility, and a liquidity crisis. As governments prioritized public health, financial systems faced severe strain, prompting swift regulatory and monetary interventions. This chapter explores the pandemic's impact on stock, bond, commodity, and currency markets and investigates the behavioral shifts in investor strategies during the crisis. It analyzes the temporary and long-term regulatory measures implemented by governments, central banks, and international bodies to stabilize markets and support*

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*economic recovery. Key trends, such as the rise of digital finance and sustainable investments, are examined alongside the challenges of addressing emerging risks like cyber threats and climate change. The chapter highlights the evolution of financial regulation post-pandemic, emphasizing the importance of adaptive and resilient frameworks to ensure long-term market stability in an increasingly interconnected and digital economy.*

## **INTRODUCTION**

Since March 2020, the COVID-19 pandemic has already transformed the world and of financial markets, with the biggest disruptions and volatility ever seen. Things were different in the globe, and all the sectors and economies were affected by the pandemic resulting in economic depressions and changes in the market dynamics. Financial markets were impacted by the global response to the pandemic, including lockdowns and other policy interventions, further emphasizing the interdependence of global economies. To this end, the following sections review the impact of the pandemic on the financial markets, synthesized from various studies.

### **Volatile Markets and Economic Disruption**

The COVID-19 pandemic brought unprecedented damage to economies across the globe, with the output of countries having declined dramatically across sectors. The hardest-hit sectors ranged from charter real industries such as forestry and fisheries to hotel and restaurant services (N. Sun et al., 2024).

The overall equity index returns discovery showed a significant negative impact on global equity markets. In European countries, the effect was more significant than in East Asian economies (Hui & Chan, 2022).

The COVID-19 pandemic has resulted in an increase in the volatility connectedness of global stock markets, with stronger connections being observed across continents. But China was almost apathetic to this volatility network until late 2020 (Chen, 2022).

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