

Discussion:

Saved by the bell? Equity market responses to surprise Covid-19 lockdowns and central bank interventions (Mathur, Sengupta and Pratap, 2022)

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Paper overview

- Compare Indian firms for which Covid-19 was mentioned in January-February 2020 earning call report transcripts with firms for which the pandemic was not mentioned.
- Find that firms for which Covid-19 was mentioned had worse stock market performance right after the lockdown was announced in India, in March 2020.
- The same firms saw higher stock market returns when the RBI announced relief packages three days later.
- Control for sector differences and a range of firm characteristics (foreign exchange earnings, as well as profitability of firms, their cash holdings, non-pandemic or business-as-usual China-connections, pre-existing inventories, operating expenses and reliance on trade credit).
- Potential mechanisms:
 - Links to China (as overall mentions of China in the transcripts)
 - Supply and demand issues (as mentioned in the transcripts immediately adjacent to Covid-19 mentions)
 - Negative sentiment of the text surrounding Covid-19 mentions
 - **Expressed uncertainty the text surrounding Covid-19 mentions**
- Take away points:
 - “information provided in a timely and spontaneous fashion by firms on how they view their own resilience in the face of [...] adverse events” can provide an early signal of stock market performance
 - Central bank policy can alleviate the (short term) effects of these events.

Overall feedback

- Very interesting paper, highly salient topic.
- Thorough methodology, excellent robustness checks.
- Excellent implementation of the text analysis methods.
- Good choice of statistical methods.
- Very well-written, results well presented.
- Important implications about the role central bank policy actions can play in mitigating the negative impact of an economy-wide shock on firms.
- Main discussion points:
 - Suggest additional robustness checks
 - Highlight selection issues (studied firms, text used, etc.)
 - Suggest other potential methodological approaches
 - Discuss the framing and overall narrative

Selection issues

- *“We start with a sample of the 500 largest firms listed in the Nifty 500 index of India’s National Stock Exchange (NSE). Our main sample consists of the earnings calls transcripts from January-February 2020, of 196 firms, presenting their income results of October-December 2019.”* Not clear how the 500 were reduced to 196, and then further to 151 in the models. Was there self-selection? Are firms who were more concerned more likely to have been included?
- Are mentions of Covid-19 present in the prepared remarks, in the questions asked by the public, or in answers to those questions?
 - Highly relevant for all other measures as well. What you are capturing now is overall sentiment, but it could differ between management and the analysts asking the questions.
 - Uncertainty also only evaluated around Covid-19 mentions. What about uncertainty throughout the entire text?
 - This additional variation can be exploited to study the effects among firms who engaged in voluntary disclosure vs. those that were forced to discuss Covid-19 by the public.

Additional controls and robustness checks

- What is the time distribution of the calls? Plot the distribution of effects in relation to the time of the call. Do we observe stronger effects for firms who did their reports in February, compared to those who did them in January?
- Models in which Covid-19 mentions scaled counts are used instead of the dummy for Covid-19 mention. Or include both – the dummy as a variable recording if Covid-19 was a factors or not, and the scaled counts as a measure of its relevance/level of concern.
- Previous experience with rare disaster events, or previous pandemics has been shown to be a relevant factor – consider controlling for it.
- No statistically significant difference in the net overall sentiment for the two sets of firms, but the actual values not presented. Are the means (which seem the be negative) different than the mean of the targeted sentiment in sentences around mentions of Covid-10?
- What happened between the reports and the actual lockdown? Plot returns over time and model the effect of lockdown within the longer time series.
- Control for short-term borrowings and potentially geographic location of the firms.
- Figure 5 should be extended to the period before January 2020, since there seem to be significant and persistent differences in stock returns between the two sets of firms at the beginning of the year (and the model takes the 91 days before into account).
- Evaluate the effects of links to China, but a similar argument can be made for these other countries which were in the news in January as having recorded Covid-19 cases. Do the firms who mentioned Covid-19 mention these other countries? The text analysis counts general mentions of “supply” and “demand” but does not fully account for the international links that these countries might have.

Alternative methodological approaches or further analysis

- Did the firms express similar concerns through other channels (such as social media)? Are the effects similar?
- Briefly mention looking at Q2 calls for a subset of the firms, but do not further elaborate. Can Q2 reports be used to further understand the ways in which the firms were affected?
- Since the number of firms is small (151) and the overall size of the transcripts cannot be very large, they could have all been manually coded to identify the exact context of the Covid-19 discussion, without relying on the lexicons.
- Alternatively, a topic model on the relevant text. Structural topic models can be used to include covariates.
- Huge potential coming from transcript data – can tap into latent variables related to changes in tonality, study the interaction between the public/analysts and management, the conversation evolution, etc.

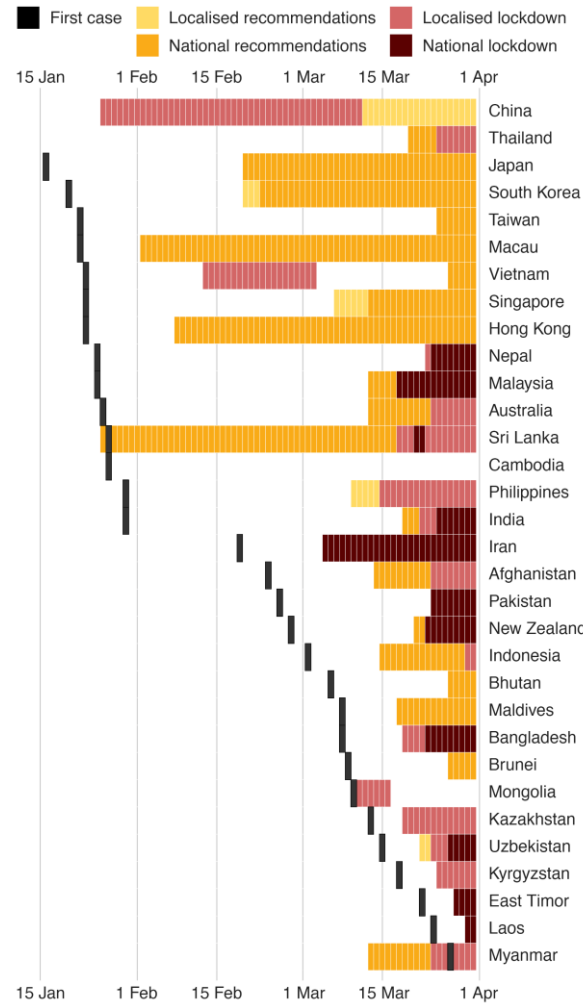
Overall framing and narrative

- Establish that it was firm communication. The assumption is that investors receive the information in the report. Could it be that those reports that mention Covid-19 receive more media coverage? Is this a story about information communication, or one about visibility and negative effects of media or social media coverage?
- Hard to imagine that earnings call reports are not to some extent being used strategically by the companies. Are you capturing a form of strategic communication or position taking?
- Does this mean that firms are able to forecast their own performance in the face of adverse events? If so, do we also see them take action as a consequence? Would this action have driven subsequent results?
- Not clear why there isn't a clearly stated Hypothesis 6 about the central bank's policy package.
- Being slightly picky: treatment/control unusual terminology – assumes an element of targeted, perhaps also random intervention, when none is present.

Surprise events?

Asia, Australia and New Zealand in lockdown

Dates and severity of restricted internal movement by country



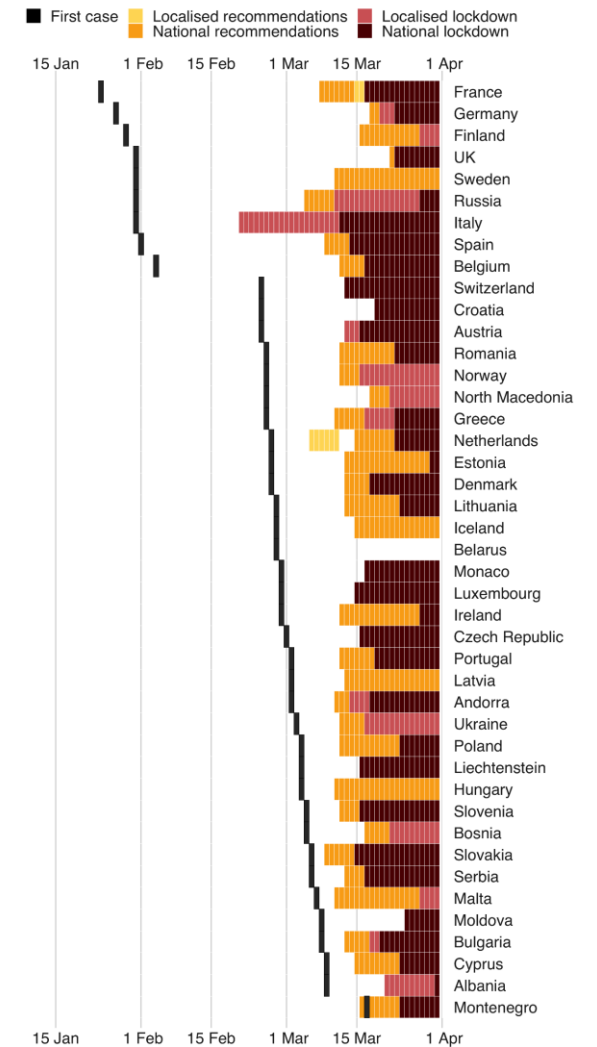
Note: China and Thailand confirmed their first cases prior to 15 January 2020

Source: Oxford COVID-19 Government Response Tracker, BBC Research



European countries in lockdown

Dates and severity of restricted internal movement by country



Source: Oxford COVID-19 Government Response Tracker, BBC Research

