

# Dangerous infectious diseases—good news for Wall Street?

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Infectious diseases: Bad news for the High Street, good news for Wall Street?  
Credit: University of Portsmouth

While infectious diseases may be dangerous for the general public, they are good news for stock market investors and traders, says a new study from the University of Portsmouth.

The study, carried out by Dr Renatas Kizys from the University's Portsmouth Business School (in collaboration with Michael Donadelli and Max Riedel from Goethe University Frankfurt), showed that large disease-related events of devastating nature to the economy are [good news](#) to stock market traders.

They found that DRNs lead to sizeable increases in [stock prices](#) of [pharmaceutical](#) companies. Following a DRNs' publication, [stock](#) prices increase more (less) for smaller (larger) pharmaceutical companies, who are less (more) likely to engage in the development of new vaccines in the wake of DRNs. A potential negative investment climate (on the high street) – caused by disease-related fear – does not alter the positive sentiment effect. The balance between the two contrasting effects- a positive sector-specific sentiment effect and a negative aggregate (fear-induced) effect on the prices of pharmaceutical stocks – finds the former is quantitatively larger than the latter.

Dr Kizys, a Reader in Finance, said: "Based on our research findings, we simulated a number of trading strategies and we found that these strategies can give rise to positive and significant profits. For instance, one such strategy implies that after a DRNs' publication, it is profitable to sell short futures contracts of the VIX volatility index and buy long a portfolio of pharmaceutical stocks. This trading strategy generates on average a profit from 0.4 per cent to 2.0 per cent depending on the structure of a pharmaceutical portfolio and the investment horizon (1 – 3 days)."

**More information:** Michael Donadelli et al. Dangerous infectious diseases: Bad news for Main Street, good news for Wall Street?, *Journal of Financial Markets* (2016). [DOI: 10.1016/j.finmar.2016.12.003](https://doi.org/10.1016/j.finmar.2016.12.003)

Provided by University of Portsmouth

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