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Opinion Article

Consequences of the COVID-19 Crisis on Infrastructure Investment

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DESCRIPTION

The financialization of commodities during the COVID-19 (coronavirus pandemic) and comparison of that to the GFC (global financial crisis). Energy commodities were found to be strongly related, especially after 2020. The effect on metals is moderate, while it is least noticeable for agricultural commodities. The results showed that, in comparison to the GFC, the financialization of commodities during COVID-19 was substantially stronger. A comparison of financialization in developed and developing nations is also done, and the results show that connection is stronger in wealthy nations than in developing nations. The data show that from 2010 to 2019, the effects were less significant. During the COVID 19 and the Great Financial Crisis, gold had a tremendous impact on the stock market, making it a safe haven asset. Overall, the results raise questions about the ability of energy commodities to be used as hedges. The results also suggest that the COVID-19 had a greater influence than the GFC.

Several analyses have emphasized how the ostentatious rise in commodity trading over the past ten years has led to the emergence of capital flow in the commodity market, also known as the financialization of commodity market futures. Also discovered that the introduction of financialization has caused a spike in the pricing of certain commodity futures. Demand and supply for crude oil have increased in tandem as a result of investment in non-energy commodity futures. The co-movement within the commodity market increased as a consequence. These studies show that, as commodity growth has accelerated since the early 2000s, the pricing behavior of commodities has undergone a significant adjustment. Large investors have become interested in commodities due to its hedging and diversification potential. When investors switch their funds from one asset class to another, say from equities to commodities, especially when there is financial difficulty, this creates a demand shock. A rise in the price of a commodity like oil may cause a drop in stock values. Finally, it ended in the establishment of a significant correlation between equities and commodities, as well as equity commodities and commodity futures; this correlation may be caused by the presence of hedging funds in equity and commodity futures. Being viewed as a store of value, commodities make ideal hedges against inflation and crises. There is a negative correlation between stock and commodities returns. This link between the equities and commodity markets is proof that commodities are becoming more financialized. Demand shocks and investment patterns appear to be the primary determinants of this association.

Investors lost faith in the financial industry after Lehman Brothers' bankruptcy during the Great Financial Crisis of 2008 sparked a crash in stock values and turned to commodities. The oil price bubble is the effect of this. As a result, the rise in the prices of many classes of commodities, including agriculture, metals, and energy, in 2007–2008 has provided an explanation for the equity spillovers to the commodity market during a crisis. Oil and stock prices had bidirectional volatility spillover at the beginning of the GFC. Suggested that the start of the GFC has significantly boosted financialization in the commodity sector. Since then, the financialization and connectivity of the commodity market have quickly increased. The recent coronavirus outbreak (COVID 19) has raised doubts in the financial community. It has led to an unprecedented string of stock market conflicts. The market value of the Standard & Poor (S&P) 500 for the first week of March. This global financial crisis' collapse of the financial system was a carbon copy of it. More so than any other financial catastrophe, including the SARS pandemic, global financial crisis, or Spanish flu, was COVID 19. Many researchers have offered explanations for how the COVID 19 outbreak affected the world stock market. Investors switched from the equity market to safe haven assets as a result. Investment in commodities, notably metals, rose sharply.

A growing corpus of literature has looked at how the stock market and commodity prices moved together during COVID 19. However, there are currently no reliable models in the academic literature that compare the movement of the stock

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market and commodities during COVID 19 to the movement of both markets during the Great Financial Crisis. This makes it difficult to study how pandemic risk affects the stock market and oil prices. But nobody has yet made a comparison between the financialization of commodities during the COVID 19 outbreak and the global financial crisis. As an alternative, investors can include energy commodities in their portfolios to protect against the risk of equity during COVID 19. However, the findings call into question the energy commodities' capacity for diversification. The data suggest that, relative to times when there is no crisis, the financialization of commodities increases. Furthermore, compared to the GFC period, the effects are more pronounced during COVID 19. Similar to the findings, the power of financialization is more apparent in the case of energy commodities when compared to metals and agricultural commodities.