Extended Abstract

1.Introduction
Investor behavior in financial markets is strongly influenced by emotions, biases, and subjective tendencies. Optimism or pessimism toward specific stocks can drive decisions independent of fundamental valuations, often leading to overreaction or under reaction in capital markets. Behavioral finance research suggests that these emotional tendencies can induce price fluctuations even in the absence of underlying economic changes. The emergence and rapid spread of the COVID-19 pandemic intensified social and economic uncertainty, exerting psychological pressure on investors and generating heightened market sentiment. Understanding how investors respond to such crises is crucial for effective risk management and future crisis preparedness.

2. Research Hypotheses

- **H1:** Investor sentiment in the Iranian capital market significantly differs before and after the COVID-19 outbreak.
- **H2:** The reaction of the Iranian capital market significantly differs before and after the COVID-19 outbreak.
- **H1.1:** Stock returns differ significantly before and after the outbreak.
- **H1.2:** Trading volumes differ significantly before and after the outbreak.

3.Methods
This study analyzed 204 companies listed on the Tehran Stock Exchange over an eight-month period (October 16, 2019 – June 17, 2020). Paired comparison tests were applied to examine differences in investor sentiment, stock returns, and trading volume before and after the pandemic announcement.

4.Results
Investor sentiment significantly increased following the announcement of COVID-19. The market exhibited abnormal returns for four days, while trading volumes experienced unusual fluctuations over two to five days, reflecting heightened market volatility and uncertainty.

5. Discussion and Conclusion
The findings indicate that the COVID-19 outbreak significantly affected both investor emotions and capital market reactions. Abnormal returns and

trading volumes highlight the influence of psychological factors in emerging markets during health crises. Policymakers, regulators, and investors should consider these behavioral responses to mitigate overreactions, stabilize markets, and prevent abrupt price shocks. Investors are advised to delay immediate trading following major social or political events until the initial overreaction subsides. This study contributes to the behavioral finance literature by documenting the effects of a global health crisis on market sentiment and dynamics in an emerging market context.
Keywords

Investor Sentiment, Abnormal Stock Returns, Trading Volume, COVID-19, Tehran Stock Exchange