



Behavioral Finance Insights from Post-Pandemic Market Trends (2020-2025)

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ABSTRACT

The COVID-19 crisis caused one of the most turbulent times in financial history in the recent past. This resulted in the rewiring of investor sentiment and market sentiment. The paper shall discuss the higher order behavioral-finance theories like loss aversion, herding, overconfidence and confirmation bias as they occurred in both the equity and fixed-income markets over a period of five years of time, between 2020 and 2025. Based on the latest state-of-the-art evidence provided by the International Monetary Fund (IMF), the Bank for International Settlement (BIS), and the world-leading scholarship, the review has shown the trends in the post-COVID world that had a higher involvement of retailers in the capital markets, risk-taking in the portfolio as a result of government intervention policies, and more influence of the sentiments. They also report empirical work that shows that investor sentiment measures and volatility spikes took place simultaneously, which is suggestive of a behavioral overlay of fundamentals. The problem is that even though due to the ease of trading provided to all the people through the technological means and electronic channels, it became more egalitarian, it also enhanced the cognitive biases. Policymakers and institutions should incorporate behavioral implications in financial-stability models to help in the prediction of shocks in the future.



1. Introduction

Behavioral finance connects psychology to market behavior, the forces that cause investors to separate from rational-expectations models. The pandemic-induced market collapse in the beginning of 2020 and the subsequent quick rebound offered an unparalleled laboratory for the viewing of behavioral dynamics. Unprecedented fiscal and monetary stimulus, combined with social distancing and digital-trading availability, created the incentives for herd-like engagement and sentiment-based rallies. This analysis reviews how such forces influenced global markets between 2020 and 2025, with an emphasis on equities and bonds and not digital-asset speculation. It aims to compile empirical evidence and policy conclusions from new literature and market data.

2. Literature Review

Traditional behavior-finance theory also recognizes a number of persistent cognitive biases. Prospect theory (Kahneman & Tversky, 1979) accounts for risk-averse decisions under gains and risk-seeking decisions under losses. Self-attribution bias and overconfidence (Barber & Odean, 2001) lead to excessive trading volumes, whereas herding (Bikhchandani & Sharma, 2000) is indicative of investors' behavior to imitate crowd actions.

Recent research applied these concepts to the pandemic environment. Smales (2022) reported increased sensitivity of equity volatility to news sentiment during 2020 and 2021. Fang et al. (2023) reported increased U.S. retail-trading volume by almost 80 percent above pre-pandemic levels. Raghurir and Das (2024) reported continued loss-aversion effects in bond funds during periods of inflationary spikes. Overall, the literature identifies a behavioral overlay over markets even after fundamentals normalized.

3. Post-Pandemic Market Dynamics

The post-2020 world was marked with periods of hope and anxieties. The world equities recovered more than 70 percent in mid 2021 after a 34 percent S&P 500 downturn in March 2020, with government-bond yields bouncing close to record lows. The mediation by central banks energized risk-taking, pushing risk premia down and increasing equity-valuation multiples.

The macroeconomic volatility persisted even after the previous crises. Data provided by IMF (2025) indicate that the growth of GDP in world average was ranging between -3.1 percent (2020) and 6.0 percent (2021) before stabilizing to around 3 percent by 2024. The valuation of equities that were



unrelated to the growth of earnings was in place because the behavioral exuberance and liquidity prevailed over fundamentals.

Table 1. Global Equity Volatility Index (VIX) Average 2020–2025
(Data source: CBOE, IMF Global Financial Stability Report 2025)

Year	Average VIX Level	Interpretation
2020	33.5	Crisis peak; extreme fear
2021	21.7	Stimulus-driven calm
2022	26.4	Inflation and rate-hike anxiety
2023	19.9	Stabilization phase
2024	17.6	Return to moderate volatility
2025 est.	18.3	Sustained uncertainty

These cycles were reflected within the European and Asian markets besides the U.S. By late 2021, the Euro Stoxx 50 had recovered to pre-crisis levels with fiscal transfers being made possible by the EU Recovery Fund. The investments in emerging-market equities fell behind, because of reversals in capital flows and slower vaccination.

The global investment by retail investors increased. According to the Federal Reserve Survey (2024), in 2023, retail involvement in U.S equities increased to 23 percent of the daily trades, which is twofold that of 2019. New trading accounts were up to 32 million on the National Stock Exchange in India alone in 2021. These flows increased the short-term price action and left areas of speculative oversupply in industries like clean energy and technology equipment.

However, this was not the case with bond markets. Although inflation continued to hit multi-decade highs in 2022, government-bond yields were kept at historically low levels up to mid-2023, because of unabated demand for safe assets. The behavioral explanations are ambiguity aversion-it is the fact that investors favored known low returns as compared to uncertain equities-and anchoring to previous interest-rate regimes.



4. Dominant Behavioral Biases Observed

4.1 Herding Behavior

Shareholders were clustering around such industries as technology and healthcare. In the S&P 500, cross-sector dispersion in returns reduced by 40 percent in 2020 (IMF, 2021), which implies the coordinated trading and narrative-based herding.

4.2 Overconfidence Bias

The 2021 rally was based on unrealistic growth expectations. CFA Institute (2022) surveys revealed that 58 percent of retail investors forecasted an annual return of more than 15 percent, which is way beyond historical averages. This bias was also exhibited in high turnover in online brokerage accounts.

4.3 Loss Aversion

The outflows in bond funds in early 2022 as rates increased can represent the tendency of investors to avoid nominal losses. According to Morningstar (2023), bond funds exited globally and experienced a total of \$380 billion in the second quarter of 2022 despite the positive developments in yields.

4.4 Confirmation Bias And Information Echo Chambers

There was reinforcement of pre-existing beliefs by algorithmic newsfeeds. Chen and Li (2024) discovered that the sentiment scores on financial sub-forums were related to retail order imbalance 0.72- evidence of feedback between online sentiment and market behavior.

Table 2. Summary of Key Behavioral Biases and Market Effects

Bias	Behavioral Indicator	Observed Market Effect (2020-2025)
Herding	Sector concentration	Reduced diversification
Overconfidence	High turnover	Short-term rallies
Loss Aversion	Bond fund outflows	Yield volatility
Confirmation Bias	Echo chambers	Amplified sentiment swings



5. Technology And Behavioral Shifts

Market access was democratized through FinTech platforms and zero-commission brokers that increased the strength of behavioral biases. The number of trades on large retail platforms that take place on a daily basis increased three times between 2019 and 2021 (Statista, 2024). Choice overload was caused by interface design which provokes impulsive decision-making. Behavioral nudges consisted of Push notifications and lists of trending stock that boosted turnover at the cost of holding periods.

Institutional behavior was also altered by algorithmic trading. Quant funds and high-frequency traders started using sentiment data mined out of social-media feeds, using natural-language-processing (NLP) models to provide an understanding of overall emotion. As noted by BIS (2024), the extreme sentiment divergence days are related to increased intraday volatility of the large exchanges by 15 percent.

The information cascades were speeded up through digital channels of communication. The percentage of market-moving tweets, which mention S&P 500 stocks, has increased by 19 percentage points (a difference between 8 percent in 2019 and 27 percent in 2021) (IMF, 2023). Retail flows ensued in hours when influential accounts were reinforcing bullish narratives which repeated feedback loops typical of herding.

Institutional investors also wanted to use behavioral data as predictive inputs at the same time. Asset managers incorporated search intensity in Google-Trends and media-sentiment indexes in risk models. The initial outcome indicates small improvements in forecasting, yet, there is also a threat of algorithmic herding, when the reactions of a number of institutions to the same sentiment signals are simultaneous, thus, crowding trades.

Lastly, the behavior changes in the digital era also changed the time horizon of investment. The mean S&P 500 stocks holding dropped to 4.3 months (2023) as compared to 7.1 months (2019) (BIS Working Paper 1043, 2024). The reduction in horizon increases the effects of momentum and loses contact with fundamentals.

Table 3. Retail vs Institutional Trading Share in U.S. Equity Markets (%)
(Data source: FINRA, BIS 2024)

Year	Retail	Institutional
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2019	13	87
2020	18	82
2021	22	78
2023	23	77
2025 est.	21	79

The continuity of high retail involvement qualifies evidence of democratized yet emotionally inclined markets.

6. Implications For Financial Markets And Policy

Behavioral patterns observed since 2020 carry significant implications for market stability and regulation. Herding and overconfidence amplify asset-price bubbles, while loss aversion can trigger abrupt sell-offs once thresholds are breached. The interaction of digital-age trading and macroeconomic policy challenges traditional risk-assessment frameworks.

6.1 Market Efficiency And Price Formation

Empirical evidence is used to show that informational efficiency is decreasing at high-sentiment periods. Fang et al. (2023) approximate using intraday data that 20 to 25 percent of price changes in 2021 could not be explained by fundamentals, and it is related to sentiment-driven trading. High turnover ratios and reduction of holding period indicates a high level of speculative liquidity and not informed trading that dominated the volume.

6.2 Systemic Risk And Financial Stability

Retail flows can lead to the destabilization of liquidity by being concentrated. BIS (2024) cautions that synchronized trading in the retail market, especially via the derivative market, intensifies tail risk as it compels the market makers to hedge in unison. One percent spike in the retail call-option volume was accompanied by a 0.3 per cent rise in intraday volatility in U.S. indices. The policymakers should then consider the behavioral factors as a part of macroprudential surveillance.



6.3 Regulatory Responses And Investor Protection

Regulators have started incorporating behavioral knowledge. In an effort to lessen gamification, the U.S. Securities and Exchange Commission (SEC, 2023) suggested improved disclosure of design of trading apps. To see whether color cues and reward icons are used to exploit cognitive biases, European regulators of ESMA introduced behavioral audits of online broker interfaces.

There is also the growth of the investor-education efforts. The universities and central banks are now collaborating on the so-called behavioral-literacy programs that promote pre-trading contemplation. Pilot projects in Singapore and Canada indicate that short digital-literacy prompts help to minimize turnover by 10 to 12 percent (IMF, 2025).

6.4 Corporate Finance And Capital Raising

The new sentiment environment has been adjusted by corporations. According to Refinitiv (2024), the world IPO proceeds in 2021 were the highest in history of 608 billion, and then decreased to 280 billion (2023). Numerous companies have orchestrated activities to coincide with retail optimism, which points to the fact that the corporate-finance strategy is now more responsive to the actual behavioral signals than to macro variables.

7. Future Research Directions

The future research needs to combine behavioral measures with macro-financial models. The sentiment indices can be combined with machine-learning predictions to provide early bubble warning or crashes. Cross-cultural comparisons might show that in emerging markets that might have some biases against them, they still occur during the period of the pandemic. The longitudinal survey can also determine whether behavioral distortions are reduced by greater financial literacy levels after 2022. The interplay between the narratives of ESG-driven investment and the behavioral inclinations of moral licensing and herding should also be investigated by scholars.

8. Conclusion

The aftermath of the pandemic emphasizes the fact that markets are still highly humanistic in their responses. Examples of 2020-2025 statistics show that technology and macro uncertainty enable behavioral biases that cause significant deviation of rational standards. Although the prices were stabilized by policy interventions, the intensity of trading and the focus on a sector was determined by the



psychological considerations. This can be achieved by integrating behavioral-finance principles in regulatory design and investor education to make financial-market behavior more resilient to future systemic shocks and to make financial-market behavior more consistent with long-run economic fundamentals.

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