

Internet Appendix for

“Partisan Return Gap: The Polarized Stock Market in the Time of a Pandemic”

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This Internet Appendix provides additional tables used in the paper.

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Table IA1. Double clustering

This table presents the partisan return gap on COVID shock days, using standard errors double clustered at the date and at the stock level. The dependent variable is Fama-French 3-factor alpha. *COVID Shock* equals to 1 if COVID-related news triggered the S&P 500 index to move by more than 2.5%. In panel A, we identify investors' partisanship by firm headquarters. *Red* is a dummy that equals 1 if the firm is headquartered in a county where the Republican candidate received more votes in the 2016 presidential election. In Panel B, we measure partisanship using the social-connection-based partisanship (*SCP*). *SCP* is the log weighted sum of voting shares to the Republican Party, where the weight is the Social Connectedness Index between the county of interest and other counties based on Facebook friendship links. Control variables include % *Unemp*, % *Female*, *HH Income*, *TRR*, $\log(1+ME)$, *B/M*, and their interactions with *COVID Shock*. Industries are defined as Fama-French 30 industries. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: partisanship by firm headquarters

	(1)	(2)	(3)
COVID Shock × Red	0.19**	0.20***	0.14**
	(2.48)	(2.79)	(2.47)
COVID Shock	-0.18*	-1.36	
	(-1.84)	(-0.67)	
Red	-0.03	-0.02	
	(-0.87)	(-0.82)	
Constant	0.08***	0.20	-0.01
	(2.74)	(0.28)	(-0.02)
Control variables	N	Y	Y
Firm FE	N	N	Y
Industry × Date FE	N	N	Y
R^2	0.000	0.002	0.060
Observations	377182	376431	376427

Panel B: partisanship by social connections

	(1)	(2)	(3)
COVID Shock × SCP	0.13**	0.14**	0.11**
	(2.37)	(2.39)	(2.23)
COVID Shock	-2.22**	-3.87	
	(-2.38)	(-1.44)	
SCP	-0.03	-0.02	
	(-1.60)	(-1.32)	
Constant	0.60*	0.68	-0.49
	(1.77)	(0.81)	(-1.16)
Control variables	N	Y	Y
Firm FE	N	N	Y
Industry × Date FE	N	N	Y
R^2	0.000	0.002	0.060
Observations	378182	376431	376427

Table IA2. Industry clustering

This table presents the partisan return gap on COVID shock days. In columns (1)-(3), standard errors are clustered at the Fama-French 12 industry level. In columns (4)-(6), standard errors are double clustered at both the date level and the industry level. The dependent variable is Fama-French 3-factor alpha. *COVID Shock* equals to 1 if COVID-19-related news triggered the S&P 500 index to move by more than 2.5%. %. In panel A, we identify investors' partisanship by firm headquarters. *Red* is a dummy that equals 1 if the firm is headquartered in a county where the Republican candidate received more votes in the 2016 presidential election. In Panel B, we measure partisanship using the social-connection-based partisanship (*SCP*). *SCP* is the log weighted sum of voting shares to the Republican Party, where the weight is the Social Connectedness Index between the county of interest and other counties based on Facebook friendship links. Control variables include % *Unemp*, % *Female*, *HH Income*, *TRR*, $\log(1+ME)$, *B/M*, and their interactions with COVID Shock. Industries are defined as Fama-French 30 industries. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: partisanship by firm headquarters

	Cluster by industry			Double cluster by date and industry		
	(1)	(2)	(3)	(4)	(5)	(6)
COVID Shock × Red	0.19***	0.20***	0.14***	0.19***	0.20***	0.14***
	(3.34)	(4.82)	(3.99)	(3.34)	(3.50)	(3.34)
COVID Shock	-0.18	-1.36		-0.18	-1.36	
	(-1.62)	(-0.75)		(-1.62)	(-0.60)	
Red	-0.03	-0.02		-0.03	-0.02	
	(-1.01)	(-1.13)		(-1.01)	(-0.81)	
Constant	0.08***	0.20	-0.01	0.08***	0.20	-0.01
	(3.01)	(0.42)	(-0.02)	(3.01)	(0.31)	(-0.02)
Control variables	N	Y	Y	N	Y	Y
Firm FE	N	N	Y	N	N	Y
Industry × Date FE	N	N	Y	N	N	Y
R^2	0.000	0.002	0.060	0.000	0.002	0.060
Observations	377182	376431	376427	377182	376431	376427

Panel B: partisanship by social connections

	Cluster by industry			Double cluster by date and industry		
	(1)	(2)	(3)	(4)	(5)	(6)
COVID Shock × SCP	0.13***	0.14***	0.11***	0.13***	0.14***	0.11**
	(3.42)	(5.44)	(4.67)	(3.42)	(2.96)	(2.65)
COVID Shock	-2.22***	-3.87*		-2.22***	-3.87	
	(-3.24)	(-2.03)		(-3.24)	(-1.32)	
SCP	-0.03**	-0.02		-0.03**	-0.02	
	(-2.12)	(-1.65)		(-2.12)	(-1.20)	
Constant	0.60**	0.68	-0.49	0.60**	0.68	-0.49
	(2.33)	(1.46)	(-1.03)	(2.33)	(0.88)	(-0.87)
Control variables	N	Y	Y	N	Y	Y
Firm FE	N	N	Y	N	N	Y
Industry × Date FE	N	N	Y	N	N	Y
R^2	0.000	0.002	0.060	0.000	0.002	0.060
Observations	378182	376431	376427	378182	376431	376427

Table IA3. Lockdown, COVID Cases, and Firm Fundamental (SCP)

This table presents the social-connection-based partisan return gap after controlling for variables that measure the impact of COVID-19. The dependent variable is Fama-French 3-factor alpha. *COVID Shock* equals to 1 if COVID-19-related news triggered the S&P 500 index to change more than 2.5% on a day. The social-connection-based partisanship (*SCP*) is the log weighted sum of voting shares to the Republican Party, where the weight is the Social Connectedness Index between the county of interest and other counties based on Facebook friendship links. *Lockdown* indicates whether there is a state-level “shelter-in-place,” “non-essential services closure,” or “closing of public venues” in effect on a day. *New Cases* represents the number of new COVID-19 cases per 1,000 residents in a state on a day. *ΔProfitability* is the year-over-year change in gross profitability, where gross profitability is revenues minus cost of goods sold scaled by total assets. Control variables include *% Unemp*, *% Female*, *HH Income*, TRR, $\log(1+ME)$, *B/M*, and their interactions with *COVID Shock* (see Appendix A for definitions of these control variables). Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
COVID Shock × SCP	0.10**	0.10**	0.09*
	(2.02)	(2.05)	(1.89)
Lockdown	0.02		0.02
	(0.83)		(0.74)
COVID Shock × Lockdown	0.05		0.05
	(0.69)		(0.73)
New Cases	0.15**		0.15**
	(2.16)		(2.16)
COVID Shock × New Cases	-0.36***		-0.35***
	(-3.01)		(-3.00)
ΔProfitability		0.65	0.71
		(1.41)	(1.55)
COVID Shock × ΔProfitability		-0.66	-0.70
		(-0.67)	(-0.70)
Constant	-0.57	-0.54	-0.62
	(-1.30)	(-1.18)	(-1.34)
Control variables	Y	Y	Y
Firm FE	Y	Y	Y
Industry × Date FE	Y	Y	Y
R^2	0.060	0.060	0.060
Observations	373406	376427	373406

Table IA4. Positive vs. Negative COVID News

This table presents the partisan return gap on positive and negative COVID shock days. The sample period is from Jan. 1, 2020, to June 30, 2020. The dependent variable is Fama-French 3-factor alpha. *Positive (negative) COVID Shock* indicates days on which COVID-19-related news triggered the S&P 500 index to move up (down) by more than 2.5%. *Red* is a dummy that equals 1 if the firm is headquartered in a county where the Republican candidate received more votes in the 2016 presidential election. Control variables include *Lockdown*, *% Unemp*, *New Cases*, *% Female*, *HH Income*, *TRR*, *log(1+ME)*, *B/M*, *ΔProfitability*, and their interactions with *Positive* and *Negative COVID Shock* (see Appendix A for definitions of these control variables). Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Positive COVID Shock × Red	0.30** (2.18)	0.24** (2.37)	0.20** (2.10)
Negative COVID Shock × Red	0.09* (1.71)	0.09** (2.03)	0.06 (1.31)
Positive COVID Shock	-0.16 (-0.98)	-5.92** (-2.03)	
Negative COVID Shock	-0.20* (-1.83)	-0.58 (-0.23)	
Red	-0.03 (-0.87)	-0.01 (-0.27)	
Constant	0.08*** (2.73)	0.26 (0.34)	-0.27 (-0.84)
Control variables, Interactions	N	Y	Y
Firm FE	N	N	Y
Industry × Date FE	N	N	Y
R^2	0.000	0.003	0.060
Observations	377182	373410	373406

Table IA5. Partisanship and social distancing behavior

This table presents the effect of partisanship on social distancing behavior. In Panel A, we consider the following regression:

$$SDB_{i,t} = \alpha + \beta_1 \ln(1 + Cases_{i,t}) + \beta_2 Red_i + \beta_3 \ln(1 + Cases_{i,t}) \times Red_i + \sum_{j=1}^n \gamma_j X_{i,t}^j + \mu_i + \gamma_t + \epsilon_{i,t}$$

In Panel B, we replace $\ln(1 + Cases_{i,t})$ with *Lockdown*. The dependent variable, *Social Distancing Behavior (SDB)*, is the demeaned change in visits to non-essential businesses compared to visits at the beginning of 2020. For each county, we first calculate the 5-day moving average of non-essential visits to eliminate weekly seasonality. We then divide it by the number of visits at the beginning of 2020 to measure the change in visits during the pandemic. Finally, we demean the variable by subtracting the daily average from each observation. *Red* is a dummy that equals 1 if the firm is headquartered in a Republican county based on the 2016 presidential votes. We control for $\ln(1+cases)$, *Lockdown*, % *Unemp*, % *Female*, *HH Income*, and *TRR* in both panels. $\ln(1+Cases)$ is the logarithm of one plus the cumulative COVID-19 cases in a county. *Lockdown* is a dummy that equals 1 if a state-level “shelter in place,” “non-essential services closure,” or “closing of public venues” order is in effect. % *Unemp* is the state-level weekly new unemployment claim rate. % *Female* is the share of women in a county. *HH Income* is the median household income in the past 12 months. *TRR* is the proportion of a county’s population that attends church. Standard errors are double clustered at the county and date levels. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: response to COVID-19 cases

	(1)	(2)	(3)	(4)
Ln(1+cases)	0.01*** (5.16)	-0.00 (-0.46)	0.00 (0.85)	-0.03*** (-9.77)
Red		0.03*** (3.75)	0.01 (1.47)	0.00 (0.00)
Ln(1+cases) × Red		0.02*** (11.20)	0.03*** (12.18)	0.02*** (10.99)
Constant	0.05*** (7.42)	0.02*** (4.04)	0.48** (2.25)	0.16*** (15.63)
Control variables	N	N	Y	Y
County, Date FE	N	N	N	Y
R2	0.030	0.259	0.324	0.712
Observations	59,197	58,840	58,721	58,721

Panel B: response to lockdown orders

	(1)	(2)	(3)	(4)
Lockdown	0.03*** (3.10)	-0.01 (-1.15)	-0.06*** (-5.55)	-0.08*** (-6.84)
Red		0.07*** (6.28)	0.06*** (5.11)	0.00 (0.00)
Lockdown × Red		0.07*** (5.54)	0.09*** (6.47)	0.05*** (4.61)
Constant	0.07*** (7.65)	0.03*** (4.97)	0.36* (1.68)	0.19*** (17.68)
Control variables	N	N	Y	Y
County, Date FE	N	N	N	Y
R2	0.010	0.157	0.267	0.682
Observations	59,197	58,840	58,721	58,721

Table IA6. Partisan Disagreement from StockTwits (SCP)

This table presents the social-connection-based partisan return gap on days with large vs. small partisan disagreement. The sample period is from January 1, 2020, to June 30, 2020. *Partisan disagreement* is measured as the difference in sentiment between Republican investors and other investors based on textual analyses of StockTwits posts. The dependent variable is Fama-French 3-factor alpha. *COVID Shock* indicates days on which COVID-19-related news triggered the S&P 500 index to move by more than 2.5%. The social-connection-based partisanship (*SCP*) is the log weighted sum of voting shares to the Republican Party, where the weight is the Social Connectedness Index between the county of interest and other counties based on Facebook friendship links. Control variables include *Lockdown*, *% Unemp*, *New Cases*, *% Female*, *HH Income*, *TRR*, $\log(1+ME)$, *B/M*, $\Delta Profitability$, and their interactions with *COVID Shock* (see Appendix A for definitions of these control variables). Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Large partisan disagreement			Small partisan disagreement		
	(1)	(2)	(3)	(4)	(5)	(6)
COVID Shock \times SCP	0.16**	0.17**	0.17**	0.02	0.01	0.02
	(2.18)	(2.14)	(2.19)	(0.42)	(0.27)	(0.29)
SCP	-0.05**	-0.06**		0.01	0.02	
	(-2.62)	(-2.43)		(0.37)	(1.00)	
Constant	0.42	0.74	-0.92	-0.19	-0.74	-0.36
	(1.19)	(0.69)	(-1.17)	(-0.77)	(-0.93)	(-0.72)
Industry \times Date FE	Y	Y	Y	Y	Y	Y
Control variables	N	Y	Y	N	Y	Y
Firm FE	N	N	Y	N	N	Y
R^2	0.061	0.062	0.071	0.046	0.048	0.060
Observations	190431	186791	186791	187748	186615	186615

Table IA7. Robustness

This table shows several robustness tests. Panel A presents alternative return benchmarks: CAPM alpha, Fama-French-Carhart 4-factor alpha, and Fama-French 5-factor alpha. Factor loadings are estimated using daily returns from Jan. 1, 2018, to June 30, 2020. Panel B presents alternative event thresholds. In column (1), we consider days on which S&P 500 moves by more than 2.5%, regardless of the reason. In columns (2) – (3), we consider days on which S&P 500 moves by more than 2% and 3%. At these thresholds, there are 38 and 26 shock days respectively. Panel C presents alternative partisan measures and industries. In column (1), *Rep Vote % (county)* measures the share of votes to the Republican Party in a county. In column (2), *Red (state)* indicates whether a firm is headquartered in a Republican state. Column (3) excludes firms in the finance and utilities industries (FF12 = 8 or 11). Column (4) exclude companies in the wholesale, retail and some services industry (FF12 = 9). Panel D presents the partisan return gap after excluding COVID news days that may confound with other mechanisms. Column (1) excludes shocks related to government policies about federal aid. Column (2) excludes observations on their earnings announcement dates. Column (3) excludes observations on days surrounding firm-level earnings announcements ($[t-1, t+1]$). All specifications include control variables, firm fixed effects, and industry \times date fixed effects. Control variables include % *Unemp*, % *Female*, *HH Income*, *TRR*, $\log(1+ME)$, *B/M*, and their interactions with *COVID Shock* (see Appendix A for definitions of these control variables). Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: Alternative return benchmarks

	(1)	(2)	(3)
	CAPM	Fama-French-Carhart	Fama-French 5
COVID Shock \times Red	0.14**	0.15**	0.12**
	(2.22)	(2.50)	(2.24)
Constant	-0.23	-0.04	0.03
	(-0.68)	(-0.14)	(0.09)
Controls	Y	Y	Y
Firm FE	Y	Y	Y
Industry \times Date FE	Y	Y	Y
R^2	0.140	0.058	0.055
Observations	376427	376427	376427

Panel B: Alternative thresholds

	(1)	(2)	(3)
	All $\geq 2.5\%$	$\geq 2\%$	$\geq 3\%$
COVID Shock \times Red	0.14***	0.13***	0.13**
	(2.70)	(2.81)	(2.08)
Constant	0.00	0.01	0.03
	(0.01)	(0.04)	(0.11)
Controls	Y	Y	Y
Firm FE	Y	Y	Y
Industry \times Date FE	Y	Y	Y
R^2	0.060	0.060	0.060
Observations	376427	376427	376427

(Table IA7 continued)

Panel C: Alternative partisanship measures & industries

	(1)	(2)	(3)	(4)
	Rep Vote % (county)	Red (state)	No finance & utilities	No wholesale & retail
COVID Shock × Partisan	0.004* (1.85)	0.11* (1.97)	0.12* (1.86)	0.13** (2.14)
Constant	-0.18 (-0.47)	0.08 (0.26)	-0.62 (-1.37)	0.03 (0.11)
Controls	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Industry × Date FE	Y	Y	Y	Y
R^2	0.060	0.060	0.063	0.058
Observations	376427	376427	287864	345800

Panel D: Government policy and earnings announcements

	(1)	(2)	(3)
	Exclude days w/ gov. policy	Exclude earnings announcements	Exclude earnings Announcements [t-1, t+1]
COVID Shock × Red	0.14** (2.34)	0.15** (2.50)	0.14** (2.41)
Constant	0.05 (0.22)	-0.02 (-0.06)	0.00 (0.00)
Controls	Y	Y	Y
Firm FE	Y	Y	Y
Industry × Date FE	Y	Y	Y
R^2	0.060	0.061	0.061
Observations	376427	370439	358581

Table IA8. Analyst coverage and analyst forecast

This table presents the partisan return gap after controlling for analyst coverage and analyst forecast. The dependent variable is Fama-French 3-factor alpha. *COVID Shock* indicates days on which COVID-19-related news triggered the S&P 500 index to move by more than 2.5%. *Red* is a dummy that equals 1 if the firm is headquartered in a county where the Republican candidate received more votes in the 2016 presidential election. *Analyst coverage* is the number of analysts that cover a firm. *Analyst forecast* is average forecast of analysts. Control variables include *Lockdown*, *% Unemp*, *New Cases*, *%Female*, *HH Income*, *TRR*, $\log(1+ME)$, *B/M*, $\Delta Profitability$, and their interactions with COVID Shock (see Appendix A for definitions of these control variables). Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
COVID Shock \times Red	0.22***	0.13**	0.11*
	(2.80)	(2.22)	(1.95)
COVID Shock	-0.20	-2.47	
	(-1.61)	(-1.19)	
Red	-0.03	0.01	
	(-0.88)	(0.30)	
Analyst coverage	-0.00	0.01**	0.00
	(-0.77)	(2.05)	(0.09)
COVID Shock \times Analyst coverage	0.01	-0.04**	-0.04***
	(0.48)	(-2.16)	(-2.71)
Analyst forecast	0.00	0.01	-0.01
	(0.06)	(1.26)	(-0.80)
COVID Shock \times Analyst forecast	0.03**	0.00	0.01
	(2.10)	(0.37)	(0.69)
Constant	0.09***	0.08	-0.29
	(2.69)	(0.09)	(-0.74)
Controls	N	Y	Y
Firm FE	N	N	Y
Industry \times Date FE	N	N	Y
R^2	0.000	0.002	0.070
Observations	326982	323960	323956

Table IA9. Labor force telework flexibility

This table presents the partisan return gap after controlling for labor force telework flexibility (LFTF). The dependent variable is Fama-French 3-factor alpha. *COVID Shock* indicates days on which COVID-19-related news triggered the S&P 500 index to move by more than 2.5%. *Red* is a dummy that equals 1 if the firm is headquartered in a Republican county based on the 2016 presidential votes. *LFTF* is the labor force telework flexibility at the 4-digit NAICS industry level, as defined in Favilukis et al. (2020). Control variables include *Lockdown*, *% Unemp*, *New Cases*, *%Female*, *HH Income*, *TRR*, *log(1+ME)*, *B/M*, *ΔProfitability*, and their interactions with COVID Shock (see Appendix A for definitions of these control variables). Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
COVID Shock × Red	0.17**	0.14**	0.09*
	(2.13)	(2.33)	(1.68)
COVID Shock	-0.76	-3.65	
	(-0.90)	(-1.49)	
Red	-0.03	-0.01	
	(-0.84)	(-0.29)	
LFTF	-0.04	-0.05*	
	(-1.43)	(-1.70)	
COVID Shock × LFTF	0.11	0.10	-0.03
	(0.74)	(0.73)	(-0.23)
Constant	0.32*	0.62	-0.24
	(1.84)	(0.78)	(-0.55)
Controls	N	Y	Y
Firm FE	N	N	Y
Industry × Date FE	N	N	Y
R^2	0.000	0.002	0.064
Observations	343341	339965	339960

Table IA10. Controlling for conditional volatility

This table presents the partisan return gap after controlling for the conditional volatility of log returns. The dependent variable is the Fama-French 3-factor alpha. *COVID Shock* equals to 1 if COVID-related news triggered the S&P 500 index to move by more than 2.5%. In panel A, we identify investors' partisanship by firm headquarters. *Red* is a dummy that equals 1 if the firm is headquartered in a Republican county based on the 2016 presidential votes. In Panel B, the social-connection-based partisanship (*SCP*) is the log weighted sum of voting shares to the Republican Party, where the weight is the Social Connectedness Index between the county of interest and other counties based on Facebook friendship links. *Conditional Volatility (Cond. Vol.)* is the volatility of log returns estimated with a GARCH (1, 1) model for each stock on each day. Control variables include % *Unemp*, % *Female*, *HH Income*, *TRR*, $\log(1+ME)$, *B/M*, and their interactions with COVID Shock. Industries are defined as Fama-French 30 industries. Standard errors are clustered by date. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: partisanship by firm headquarters

	(1)	(2)	(3)
COVID Shock × Red	0.18**	0.19***	0.14**
	(2.53)	(2.93)	(2.54)
COVID Shock	0.05	-0.78	
	(0.22)	(-0.47)	
Red	-0.02	-0.02	
	(-0.71)	(-0.64)	
COVID Shock × Cond. Vol.	0.03	0.02	0.01
	(1.29)	(0.86)	(0.14)
Conditional volatility	-0.05	-0.04	0.00
	(-0.92)	(-0.72)	(0.04)
Constant	-0.04	-0.12	-0.03
	(-0.53)	(-0.17)	(-0.11)
Control variables	N	Y	Y
Firm FE	N	N	Y
Industry × Date FE	N	N	Y
R^2	0.001	0.002	0.060
Observations	376914	376164	376164

Panel B: partisanship by social connections

	(1)	(2)	(3)
COVID Shock × SCP	0.13**	0.14**	0.11**
	(2.26)	(2.27)	(2.25)
COVID Shock	-1.96**	-3.36	
	(-2.49)	(-1.46)	
SCP	-0.03	-0.02	
	(-1.49)	(-1.27)	
COVID Shock × Cond. Vol.	-0.05	-0.04	0.00
	(-0.93)	(-0.74)	(0.03)
Conditional volatility	0.03	0.02	0.01
	(1.28)	(0.86)	(0.14)
Constant	0.43	0.40	-0.52
	(1.39)	(0.48)	(-1.34)
Control variables	N	Y	Y
Firm FE	N	N	Y
Industry × Date FE	N	N	Y
R^2	0.001	0.002	0.060
Observations	377914	376164	376164