

## **Uncertainty and Herding Behaviour: Evidence from Cryptocurrencies**

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### **Abstract:**

The aim of this study was to examine the existence of herding behaviour in the cryptocurrency market by employing cross-sectional absolute deviation (CSAD) of returns. We utilized the daily data of the 14 leading cryptocurrencies in terms of closing price, market cap and transaction volume. In addition to the CSAD methodology, we also investigated the effect of economic policy uncertainty on herding behaviour. For this purpose, first we tested the static model by employing Ordinary Least Squares (OLS), thereafter, we estimated the model by utilizing the Generalized Autoregressive Conditional Heteroscedasticity (GARCH) method and finally, we employed the Time-Varying Markov-Switching (TV-MS) model for the overall sample and sub-periods which was determined based on the results of Quandt-Andrews and Bai-Perron breakpoint tests. We also used dummy variables to analyse whether or not an asymmetric behaviour occurred during the "up and down" market periods. Our results for the overall sample refer to an anti-herding behaviour in each model. However, the results of the TV-MS model for the 3rd sub-period imply the existence of a herding behaviour in the low volatility regime, an anti-herding behaviour occurred during the high volatility regime and the effect of uncertainty was significant on the anti-herding behaviour. Finally, our results suggest that there was no significant asymmetric behaviour during the "up and down" market periods.

**Keywords:** Herding; uncertainty; cryptocurrency market; behavioural finance; Markov-switching

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