Big costs and plummeting share prices ahead for companies hit hardest by social distancing

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Companies hit hardest by social distancing will face high premiums and shares falling, according to new research by Christian Wagner and Josef Zechner from the Vienna University of Economics and Business (WU) and their co-author Marco Pagano from the University of Naples Federico II.

The study found that in the viewpoint of investors, companies that feel the effects of social distancing the most, are seen as less resilient in a crisis, therefore premiums rose whilst at the same time share prices fell.

This was particularly the case in companies with a strong connection to tourism, whereas, companies in the tech and communications sectors, were found to be hardly affected and will return to pre-COVID levels by early next year.

At the beginning of April 2020, the expected returns of stocks with low pandemic resilience, such as Royal Caribbean Cruises and United Airlines are 40-60 per cent lower than those stocks with high resilience, like Apple and Microsoft where the expected returns were between 3-4 per cent lower.

“Sectors like tourism, which are more strongly influenced by social distancing, lost around 10% more value in the investigation period from February 24 to March 20 2020 than companies that were affected less,” says Professor Wagner.

The authors also analysed if investors were aware of the risks of a pandemic before the current crisis, therefore in addition to the first quarter of 2020, the authors included the years 2014 to 2019 in their analysis.

“In the period between 2014 and 2019, the cumulative differences in returns between more and less pandemic-resilient companies were about the same as during the outbreak, i.e. between late February and early April 2020. We assume that investors were aware of the potential threat of pandemics long before COVID-19 broke out,” says Professor Zechner.

The researchers say that it cannot be ruled out that the most alert investors may have started taking into account such concerns in their portfolio choices well in advance of the current pandemic, shying away from the stocks of companies that would be less resilient.

The study looked at 3,600 US listed companies.

Pagano, Marco and Wagner, Christian and Zechner, Josef, Disaster Resilience and Asset Prices (May 17, 2020). Available at SSRN: https://ssrn.com/abstract=3603666 or http://dx.doi.org/10.2139/ssrn.3603666

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