

Effects of Coronavirus on Tourism Companies

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Eben Blake

Associate

eblake@syntaxindices.com

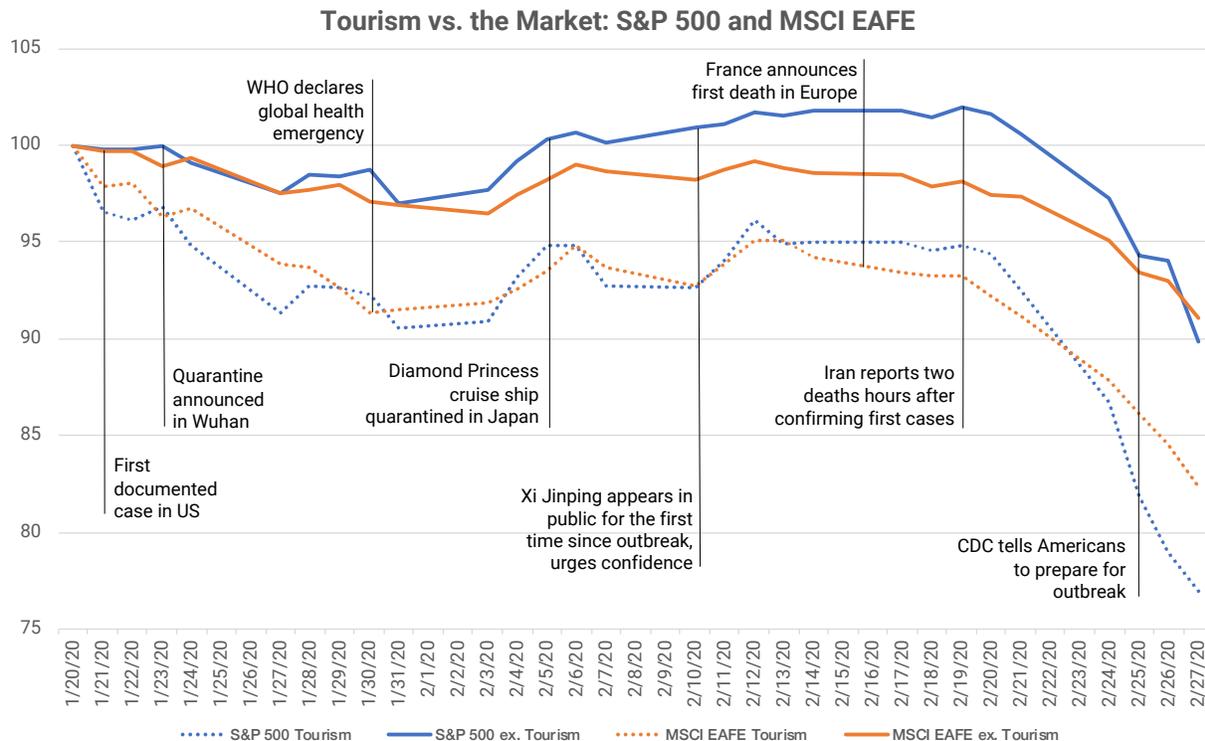
+1 212 880 0200

Coronavirus rocks Tourism; FIS® pinpoints impact

Since the first cases of Coronavirus were publicly identified in Wuhan at the end of 2019, the market has experienced significant decline as investors face uncertainty about the outbreak's effects on corporate earnings. Using Syntax's Functional Information System (FIS®) to evaluate shared business risks, we can granularly understand how the virus has specifically impacted the Tourism industry and the broader market. From January 20 to February 27, Tourism companies in the S&P 500 underperformed by 12.9%, and those in MSCI EAFE underperformed by 10.1%.

Defining Tourism: Syntax FIS vs. GICS

The Syntax FIS Tourism business risk group captures companies that are directly involved in or closely adjacent to the global tourism industry, which are thereby exposed to similar risks and market shocks. The Tourism business risk group captures not only companies involved in Hotels, Casinos, and Cruises, but also related businesses such as Airlines, Airports, and Travel Booking Sites that are not included in the Global Industry Classification Standard (GICS) Industry, "Hotels, Restaurants and Leisure," the closest single group that captures tourism risk.

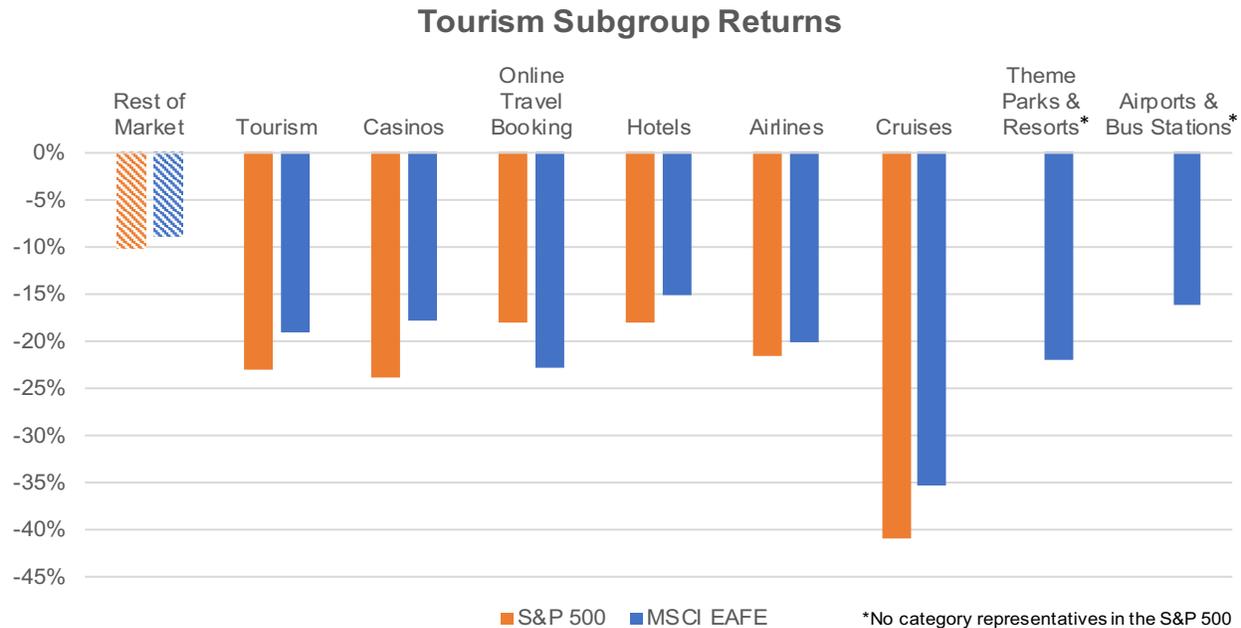


Cumulative total return, 1.20.2020 – 2.27.2020. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

Over the period from January 20 to February 27, the S&P 500 companies in this GICS Industry declined 16.1%, compared to 23.1% in the Syntax FIS Tourism Group, suggesting that Syntax's FIS may provide a more comprehensive benchmark for identifying companies vulnerable to the Coronavirus outbreak.

Syntax Subgroups: consistent losses and outsize effects of Cruises

Using the FIS Tourism subgroups, we are able to granularly understand the virus's effects on different businesses. In particular, through the Tourism groups of Casinos, Hotels, Airlines, and Online Travel Booking, we're able to see consistent declines around 20% for S&P 500 listed companies. MSCI EAFE sees similar losses across the board, as well as in the Theme Parks & Resorts and Airports & Bus Stations groups, which do not have any company representatives in the S&P 500 index.



Cumulative total return, 1.20.2020 – 2.27.2020. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

The significant outlier in both markets, however, is Cruises, which has seen a massive 40.9% loss of market value in the S&P 500 and 35.3% in MSCI EAFE since the start of the crisis. This disparity has most likely emerged due to the significant publicity around high-profile occurrences of cruise ship outbreaks, most notably the Diamond Princess ship and its ongoing quarantine in Yokohama, Japan. While FIS is able to separate out the strongest market mover, GICS aggregates Cruises with two other groups, obfuscating one of the most important stories of the drawdown and exaggerating the losses in Hotels and Resorts.

Conclusion: Coronavirus's long-term effects

As the spread of Coronavirus continues to roil markets, its long-term effects on the economy remain speculative. Since February 19th, both tourism and the broader market have suffered as the crisis has intensified. However, with the shutting down of borders, the suspension of airline services, and the quarantining of cruise ships, the losses in the Tourism industry show no signs of slowing down.

While it may be difficult to predict which business risk groups may suffer or benefit as the story evolves, it seems inevitable that risk groups will respond in different magnitudes. Syntax's FIS analysis allows investors to pinpoint companies exposed to significant related business risks with greater specificity and range than traditional methods of industry classification. The consistent losses across the Tourism industry, coupled with specific hyper-effects on Cruises, help demonstrate how Syntax's multi-faceted approach to identifying company risks are necessary for understanding and evaluating global market shocks.

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