EFFICIENT GROUP

ECONOMIC COMMENTARY

- DR. FRANCOIS STOFBERG

YOUR WEEKLY ECONOMIC UPDATE

22 November 2022

STOCKS AND SOCCER WORLD CUPS

The 2022 Soccer World Cup that started on 20 November has become a hot topic at social gatherings, birthdays, and even work functions. With people's spirits up because of more positive markets, coupled with the smell of summer and the December holiday around the corner, soccer supporters will undoubtedly fancy the chances of their favourite team winning this year's tournament.

You would be excused for being sceptical about the impact of a soccer tournament on the stock market or on the economy. But, as history has proven, there are quite a few things that happen to the financial markets during this prestigious event. Not only do the results of a country's soccer team influence stock market returns but so too do their schedule impact on the amount of market volatility. Additionally, there is also money to be made, with certain stocks benefitting from the tournament, as more people travel, spend, and bet that their favourite team will end up winning.

There is also a strong correlation between stock market returns and Soccer World Cup results. It is not simply because everyone likes to win, and if they win their markets win too, or that there is nothing better than a great comeback story, both on the field and off the field, that is, on the stock market. In a paper entitled "Sports Sentiment and Stock Returns", it was found that in more than 1 100 soccer matches, dating back to 1973, stock markets returned below-average returns the day after a country's team lost a match. This proves how disheartened a country's investors can become after their team loses. What is also interesting is that stocks' overall performance was worse during World Cup periods when compared with other periods, delivering -0.5% returns as opposed to 0.5% in other periods. This is by no means a suggestion to move towards cash before the first tournament game starts. It is merely a reminder that it is important to remember that many other factors also play a big role in explaining the stock market's direction during the Soccer World Cup.

Another interesting point to note is that trading thins out considerably during World Cup matches, which usually means a lot more volatility. A study conducted by Monash University showed that trading volumes declined by as much as 29% during matches because everyone's attention was on the matches! And with Wall Street open for all of the United States' team group stage matches, investors may see higher levels of volatility than usual, as trading volumes fall. History also shows that the most volatile period occurs when teams play into extra time, meaning that a game was drawn after 90 minutes of play. In two instances when countries played into extra time, dollar trading volume plummeted by a whopping 94%. Both matches involved Argentina, a nation fanatical about soccer, which partly explains the severity of the response.

There will also be listed companies that will benefit from the estimated 1.2 million people that will visit Qatar during the 2022 World Cup. Well-known brands, such as McDonald's and Coke, have deep roots as sponsors of the event, and typically use the tournament to re-establish their global dominance, which indirectly drives sales. Another well-known giant, Marriott International, will benefit directly, as more people stay in their Qatar hotels, including the five-star Ritz-Carlton. Then there are lesser-known companies, such as DraftKings, who will benefit as more people place big bets on their favourite teams.

What is certain is that there will be winners and losers during this year's tournament, both on and off the field. It is, however, extremely important that investors do not get carried away with short-term trends, volatility, news flow, and what-ifs, but to rather keep their eyes fixed on their own long-term goals.

81 Dely Road, Hazelwood, Pretoria, 0081 | +27 (0)87 944 7999 | info@efgroup.co.za | www.efgroup.co.za