

The World Cup Effect

Global Matters Weekly

21 November 2022

– Gary Moglione — *Portfolio Manager*

As a keen student of behavioural investing, I love reading articles on how human behaviour is influenced by emotion and how this translates to stock market movements. If only there was an event that stirred up extreme emotions that the majority of the world will participate in. It just so happens that the FIFA World Cup is here, and according to audience data around 3.6 billion people watch the tournament on television¹. This equates to about half of the world's population¹. Over the years there have been many academic studies on the behaviour of stock markets during the World Cup. Here is a summary of some of my favourites.

Edmans, Garcia and Norli (2007)² found a strong association between the results of important soccer games and local market stock returns. Looking at 39 stock markets they found an asymmetric effect where losses have a significant negative effect in the losing countries, but victories do not have the same significant effect in the winning countries. They found that the effects only last a day, and it was difficult to take advantage of as transaction costs swallowed up most of the effect.

Levy and Kaplinski (2008)³ demonstrated that the negative sentiment effect creates a longer-lasting negative effect during the FIFA World Cup, as a result of billions of fans around the world mourning their teams' exit from the tournament. They sought to exploit it in the US Equity market as it's the most global in nature and around one-third of transactions involve non-US investors.

Their analysis looked at 15 World Cups from 1950 to 2006 and found that the average return during the World Cup period was -2.58% compared with +1.21% for all-days average returns over a similar number of days. This is a meaningful difference. If you invested \$1000 in the S&P 500

If the S&P 500 declines over the next month you can be confident that the subconscious actions of billions of heartbroken football fans will be partly to blame.

from January 1950 it would have been worth \$4.4 million by the end of 2007. If you had adjusted your investment process to account for the World Cup effect and switched your portfolio to Treasuries for each world cup, before switching back at the end of the tournament, your portfolio would be worth \$6.5 million³.

Before you get excited and start shorting equities, once a behavioural effect becomes widely known it ceases to be effective and is arbitrated away. Research presented before the 2010 World Cup was widely accepted, and even resulted in an Investors Chronicle article detailing what trades retail investors should place to take advantage.

Prior to the 2014 World Cup, Goldman Sachs published their research on the "Winner effect"⁴. They looked at 10 World Cups between 1974 and 2014 and found that on average the victors stock market outperformed the global market by 3.5% in the first month following the final. Only one victor did not outperform and that was Brazil in 2002, but they were in the midst of a deep recession and a currency crisis, so the winner effect was probably drowned out by the severe economic backdrop.

I won't be adjusting my portfolios based on this research, but if the S&P 500 declines over the next month you can be confident that the subconscious actions of billions of heartbroken football fans will be partly to blame.

Global Matters Weekly

21 November 2022

The Marketplace

- Global equities fell 0.5% last week
- The International Monetary Fund warned a trade rift with China could cost the world \$1.4 Trillion
- Brent crude fell 8.7% over the week to \$87.6 a barrel
- Gold fell 1.2% to \$1750.7 per ounce

Market Focus

US

- US equities fell 0.6% last week. Consumer staples and utilities outperformed, while oil, gas and banks underperformed.
- October Core Retail Sales were 1.3% (vs 0.4% expected)
- Initial Jobless claims was 222k (vs 225k expected)
- Observing Thanksgiving, Thursday is a public holiday in the US

UK

- UK equities rose 1.1% last week
- UK October CPI 11.1% (vs 10.7% expected)
- Jeremy Hunt unveiled a fiscal package to seek to save £55bn, with a 60/40 mix of spending cuts and tax rises at the delayed Autumn budget

Europe

- European equities fell 0.2% last week. Utilities and banks outperformed while construction and retail underperformed.
- October Consumer Price Index (CPI) was 10.6% (vs 10.7% expected)
- The United Nations COP27 Convention ended with the European Union breaking deadlock by proposing a loss and damage finance facility for the most vulnerable nations in exchange for a pledge to phase down oil, gas and coal

Asia/Rest of The World

- Global emerging market equities rose 0.8% over the week
- Chinese equities rose 4.2% over the week, despite October industrial production of 5% (vs 5.2% expected)
- Hong Kong Chief Executive John Lee tested positive for Covid-19, and Beijing saw three virus deaths — China's first in six months — as cases spiked, which caused the price of oil to decline. Goldman also lowered Brent crude forecast by \$10 for Q4.
- Japanese equities fell 0.5% over the week due to Q3 GDP of -0.3% (vs estimate of +0.3%). CPI excluding fresh food climbed by 3.6% in October, beating consensus by a small margin and marking the highest since 1982.
- Labour Thanksgiving Day is on Wednesday, an annual public holiday in Japan.

Global Matters Weekly

21 November 2022

Asset Class/Region	Currency	Currency returns			
		Week ending 18 Nov. 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-0.6%	2.5%	-16.0%	-14.8%
United Kingdom	GBP	1.1%	4.3%	5.9%	8.2%
Continental Europe	EUR	-0.2%	5.7%	-10.7%	-11.0%
Japan	JPY	-0.5%	2.0%	1.2%	-0.8%
Asia Pacific (ex Japan)	USD	1.5%	14.1%	-19.6%	-21.9%
Australia	AUD	0.1%	4.6%	0.3%	1.4%
Global	USD	-0.5%	4.5%	-16.5%	-16.3%
Emerging markets equities					
Emerging Europe	USD	0.0%	12.4%	-73.8%	-75.5%
Emerging Asia	USD	1.6%	14.6%	-23.2%	-25.8%
Emerging Latin America	USD	-3.4%	-3.3%	9.3%	13.2%
BRICs	USD	1.5%	12.9%	-25.1%	-29.9%
China	USD	4.2%	24.4%	-28.9%	-35.2%
MENA countries	USD	-0.7%	-2.1%	-2.6%	-5.3%
South Africa	USD	0.1%	14.8%	-3.9%	-4.7%
India	USD	-1.5%	3.2%	-2.4%	-5.0%
Global emerging markets	USD	0.8%	11.2%	-21.5%	-23.9%
Bonds					
US Treasuries	USD	0.1%	1.4%	-12.6%	-12.3%
US Treasuries (inflation protected)	USD	-0.9%	-0.2%	-13.5%	-13.8%
US Corporate (investment grade)	USD	1.2%	3.6%	-16.7%	-16.3%
US High Yield	USD	0.7%	1.1%	-11.6%	-10.8%
UK Gilts	GBP	1.1%	3.0%	-21.2%	-21.5%
UK Corporate (investment grade)	GBP	1.1%	3.5%	-18.4%	-18.9%
Euro Government Bonds	EUR	1.6%	1.7%	-15.0%	-16.2%
Euro Corporate (investment grade)	EUR	0.9%	2.0%	-12.8%	-13.2%
Euro High Yield	EUR	0.0%	2.4%	-11.0%	-11.1%
Japanese Government	JPY	0.0%	0.1%	-3.9%	-3.9%
Australian Government	AUD	0.2%	0.9%	-9.0%	-8.3%
Global Government Bonds	USD	0.5%	3.8%	-17.7%	-17.9%
Global Bonds	USD	0.8%	4.1%	-17.6%	-17.8%
Global Convertible Bonds	USD	1.0%	3.9%	-19.5%	-22.4%
Emerging Market Bonds	USD	1.6%	5.3%	-26.7%	-26.6%

Global Matters Weekly

21 November 2022

Asset Class/Region	Currency	Currency returns			
		Week ending 18 Nov. 2022	Month to date	YTD 2022	12 months
Property					
US Property Securities	USD	-1.2%	2.7%	-23.4%	-19.7%
Australian Property Securities	AUD	-2.0%	2.0%	-22.4%	-19.0%
Asia Property Securities	USD	-0.1%	12.8%	-13.3%	-16.3%
Global Property Securities	USD	-1.0%	5.9%	-23.0%	-21.4%
Currencies					
Euro	USD	-0.1%	4.5%	-9.2%	-9.1%
UK Pound Sterling	USD	0.7%	3.6%	-12.2%	-12.0%
Japanese Yen	USD	-1.0%	6.0%	-18.0%	-18.5%
Australian Dollar	USD	-0.4%	4.3%	-8.3%	-8.3%
South African Rand	USD	0.0%	6.4%	-7.7%	-9.5%
Swiss Franc	USD	-1.1%	5.0%	-4.4%	-2.9%
Chinese Yuan	USD	-0.2%	2.6%	-10.7%	-10.3%
Commodities & Alternatives					
Commodities	USD	-2.5%	1.3%	19.7%	18.3%
Agricultural Commodities	USD	-0.4%	1.2%	7.7%	9.3%
Oil	USD	-8.7%	-7.6%	12.7%	7.9%
Gold	USD	-1.2%	7.0%	-4.3%	-5.9%
Hedge funds	USD	0.0%	-0.3%	-4.8%	-5.7%

Global Matters Weekly

21 November 2022

Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the

underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

© Momentum Global Investment Management Limited 2022