WHAT HAPPENS NEXT?

Inferences from analyst earnings forecasts and share prices

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The immediate effects of the COVID-19 pandemic are obvious – small business closures, high unemployment amongst service workers, travel plans on hold. But what happens next? In this note I make predictions of long-term effects with reference to analyst earnings forecasts and share prices. In my view, we are rapidly transitioning to a world of online retail always and a disaggregated workforce. Most health care sectors will receive a prolonged earnings benefit, with life sciences and health insurance companies the main beneficiaries. And companies providing experiences like travel and entertainment will pick up right where they were derailed almost a year ago. These predictions are part conjecture and part science – I make no claim to be an expert on any particular industry – and are designed to generate discussion.

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Introduction

The COVID-19 pandemic has had a devastating impact on people's health, put millions of people out of work, and led to small business closures on a mass scale. Yet, the U.S. share market is at an all-time high. This has occurred because the composition of U.S.-listed firms has them ideally-placed to benefit from the industry disruption caused by the pandemic. Some industries are half-way through a short-term jolt and will revert to business as usual. But the pandemic has been a catalyst for long-lived change in other industries. I analyse changes in analyst earnings forecasts and share prices to determine which industries are predicted by equity investors to be fundamentally changed from 2020 onwards.

The predictions I make are inferences from changes in analyst earnings forecasts from a pre-pandemic world (December 31, 2019) to the current state of play (November 25, 2020), and changes in share prices over the corresponding time period.

The pandemic has split listed companies into short-term winners and losers. We can easily infer the short-term winners and losers from changes in analyst earnings expectations – companies for which analysts have cut their earnings projections for fiscal years 2021-2023 are short-term losers; companies for which analysts have raised their earnings projections for fiscal years 2021-2023 are short-term winners. But the divergence between share price movement and earnings revisions allows us to form long-term expectations.

My predictions invoke a degree of conjecture and rationalisation. I group results into four themes for discussion, and acknowledge there are valid counter-arguments that would reverse these predictions. These predictions do not translate to portfolio recommendations. By design, I am trying to infer what is already factored in to share prices, not attempting to predict the next move in share prices. Ultimately, I reach four conclusions.

- **1. Retail.** We're in a world of always online retail. Physical locations are likely to exist for customer engagement, advertising and distribution locations, but there will be much less of them as the acceleration in the shift to online retail continues. There is a stark divergence between the positive share price performance of retailers with an online presence compared with the negative price movement of retail real estate investment trusts (REITs).
- **2. Workplace.** The workplace will be disaggregated. I recognize the benefits of a collaborative workspace and the spontaneous conversations that transfer information and ideas. But we have high-quality collaboration software and video conferencing facilities, and employees have rapidly adapted these to find new ways to share ideas. There is nothing particularly surprising about this trend – we have already transitioned from offices to cubicles to collaborative workspaces. The only difference is that employees share those collaborative workspaces less often. Once a CFO runs the numbers for reducing office rents and lower employee compensation costs (i.e. employees being able to live in lower housing cost areas) there will be a compelling case for remote work. Software companies' share prices are up, while securities with exposure to commercial real estate are down (i.e. Mortgage REITs and shares in property management companies).
- **3. Health.** The market is pricing long-term earnings upside for life sciences companies and health insurers. The speed with which three independent vaccines have been shown to be effective against COVID-19 is just one example of the agility in medical science, and life sciences companies benefit from the pipeline needed to turn science into solutions (when incentivized to do so). For insurers, I support the investment thesis that there are substantial efficiencies in delivery of health care that will result from better use of technology, including telehealth. Assuming this does not erode pricing power, health insurers will be the beneficiaries.

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- **4. Experience.** While experience companies like cruise lines and airlines are bleeding red ink, their share prices suggest an earnings recovery three years after the onset of the pandemic. Retail sales figures are high, so we know consumers are willing to spend, and once it is safe to attend concerts, board cruises and holiday at resorts, expect business as usual.

Method

Timeline

The objective is to measure changes in earnings expectations and share prices from the **pre-pandemic period** to the **current state of play**. The pre-pandemic period is the two-year window prior to December 31, 2019 - the date that news of a novel pneumonia-like illness in Wuhan was first reported by China to the World Health Organisation (WHO).[2] The current state of play is the window from September, 2, 2020 to November, 25, 2020. Pfizer released results of a successful vaccine trial on November 9, 2020.[3] The window for the current state of play is long enough to capture recent updates in analyst forecasts, and the S&P 1500 index was at about the same level on September 2, 2020 (810) as it was on November 6, 2020 (796), meaning that I have confidence that the long-term outlook was about the same over this two-month period. Events, dates and S&P 1500 index levels are summarized in Table 1.

Table 1. Timeline of the COVID-19 pandemic and the S&P 1500

Event	Date	S&P 1500	Change
WHO report	December 31, 2019	741	
S&P 1500 falls below base	February 24, 2020	738	-0%
S&P 1500 trough	March 23, 2020	506	-31%
Start current state of play	September 2, 2020	810	+9%
Pre-Pfizer vaccine	November 6, 2020	796	+7%
Pfizer vaccine	November 9, 2020	807	+9%
End current state of play	November 25, 2020	828	+12%

Measurement – share price return and earnings yield

I compiled a dataset of earnings per share estimates for fiscal year 2022 (FY2022). Specifically, I compiled individual analyst earnings forecasts and share prices for each company for fiscal years 2021 and 2022 for the pre-pandemic period, the current state of play, and two intermediate time periods. Regression analysis is used to compute the line of best fit between share price return and change in earnings yield, using industry averages.

- Industries with earnings upgrades and that plot above the line of best fit have a positive long-term impact. Industries with earnings upgrades that plot below the line of best fit are just receiving a short-term earnings boost that is expected to reverse.
- Industries with earnings downgrades and that plot below the line of best fit have a negative long-term impact. Industries with earnings downgrades that plot above the line of best fit are being adversely affected in the short-term, but are expected to recover.

[2] https://www.who.int/csr/don/05-january-2020-pneumonia-of-unkown-cause-china/en/ accessed on December 2, 2020.

[3] https://www.pfizer.com/news/press-release/press-release-detail/pfizer-and-biontech-announce-vaccine-candidate-against accessed on December 2, 2020.

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Data

The sample is comprised of 555 securities drawn from the S&P 1500 index. I group companies into 61 cohorts based upon their representation in the Global Industry Classification Standard (GICS)[4] Industry Group, Industry of Sub-Industry. The default position for my industries is the GICS Industry. But some adjustments are needed because there is variation of company types within different GICS Industries, leading to share prices responding differently to news about health and the economy. There are 69 GICS Industries. I make the following adjustments.

- **Utilities.** There are five GICS Industries listed under the Industry Group Utilities of which three GICS Industries appear in my sample (Multi-Utilities, Gas Utilities and Electric Utilities). I create one industry **Utilities** (9 companies).
- **Online & multiline retailers.** I group together two GICS Industries – Online & Direct Marketing Retail and Multiline Retail – as one industry **Online & multiline retailers** (8 companies)
- **Hotels, Restaurants & Leisure.** There are 24 companies listed in the GICS Industry Hotels, Restaurants & Leisure which I split into three industries according to their GICS Sub-industry classification: Casinos & Gaming (3 companies), Hotels, Resorts & Cruise Lines (8 companies) and Restaurants (15 companies).

I present summary statistics for the entire sample in Table 2. The columns with an EY heading refer to earnings yields based upon FY2022 earnings estimates. The numbers EY0, EY1, EY2, and EY3 refer to different time periods that analysts released earnings forecast updates but the fiscal year of the forecast is held constant at FY2022, and the denominator is the share price pre-pandemic that coincides with the release of the earnings forecast. The column **Return** refers to the percentage change in share price from the pre-pandemic period to the current state of play.

Table 2. Earnings Yield (EY) and return (full sample)

Item	EY0	EY1	EY2	EY3	Chg EY0-3	Return
Average	7.6	6.5	5.8	6.3	-1.3	1.5
25th percentile	4.8	4.4	3.8	3.9	-2.2	-24.8
Median	6.9	6.3	5.9	6.2	-0.6	-0.3
75th percentile	9.6	8.8	8.2	8.6	0.2	21.8

EY0: the pre-pandemic period.
EY1: December 31, 2019 to March 23, 2020 (the bottom of the market).
EY2: March 24, 2020 to September 1, 2020 (just before the start of current state of play).
EY3: September 2, 2020 to November 2020 (the current state of play).
Chg EY0-3: change in earnings yield from the pre-pandemic period to the current state of play.
Return: percentage change in share price from the pre-pandemic period to the current state of play.

The median company had an earnings yield of 6.9% (price/earnings ratio of 14.4) prior to the pandemic, and half the companies had earnings yields within the range of 4.8% to 9.6% (price/earnings ratios of 10.5 to 20.8). The table shows the impact on FY2022 earnings expectations over time, with the median earnings yield falling to 6.3% in period 1 and then 5.9% in period 2. But in the current state of play, earnings expectations have improved. The median earnings yield now stands at 6.2%. The typical company's share price has declined: the median share price change is -0.3%. The top quartile of companies have seen their share prices increase by at least 22%, compared to declines of more than 25% for the bottom quartile of companies.

[4] https://www.msci.com/gics accessed on December 2, 2020.

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Results

Baseline expectations

The inferences I draw require conjecture – I'm not an industry expert. But there is a need to make decisions every day that are part data-driven and part theory. In Figure 1, each point represents an industry average with EPS revision scaled by price on the horizontal axis and percentage share price changes on the vertical axis. The equation for the line of best fit is:

Percentage share price change = 10.0% + 7.57 × EPS change/Price

Consider the line of best fit to be the normal share price movement associated with changes in earnings expectations (the **normal return**). This means that if a company had an earnings yield of 7% in the pre-pandemic period, but this was revised downwards to 5%, the predicted change in share price would be 10.0% + 7.57 × -2% = -5.1%. Analyst earnings per share revisions for FY2022 can explain 35% of the variation in industry stock price changes from the pre-pandemic period to the current state of play.

Industries that plot close to the line of best fit are likely to continue in a similar manner to pre-pandemic operations. For companies in these industries, on average, short-term prospects for the typical industry have been revised downwards (yet, some companies have benefitted), but their share prices have not been greatly affected. We can draw inferences about long-term prospects for industries that plot above or below the line of best fit.

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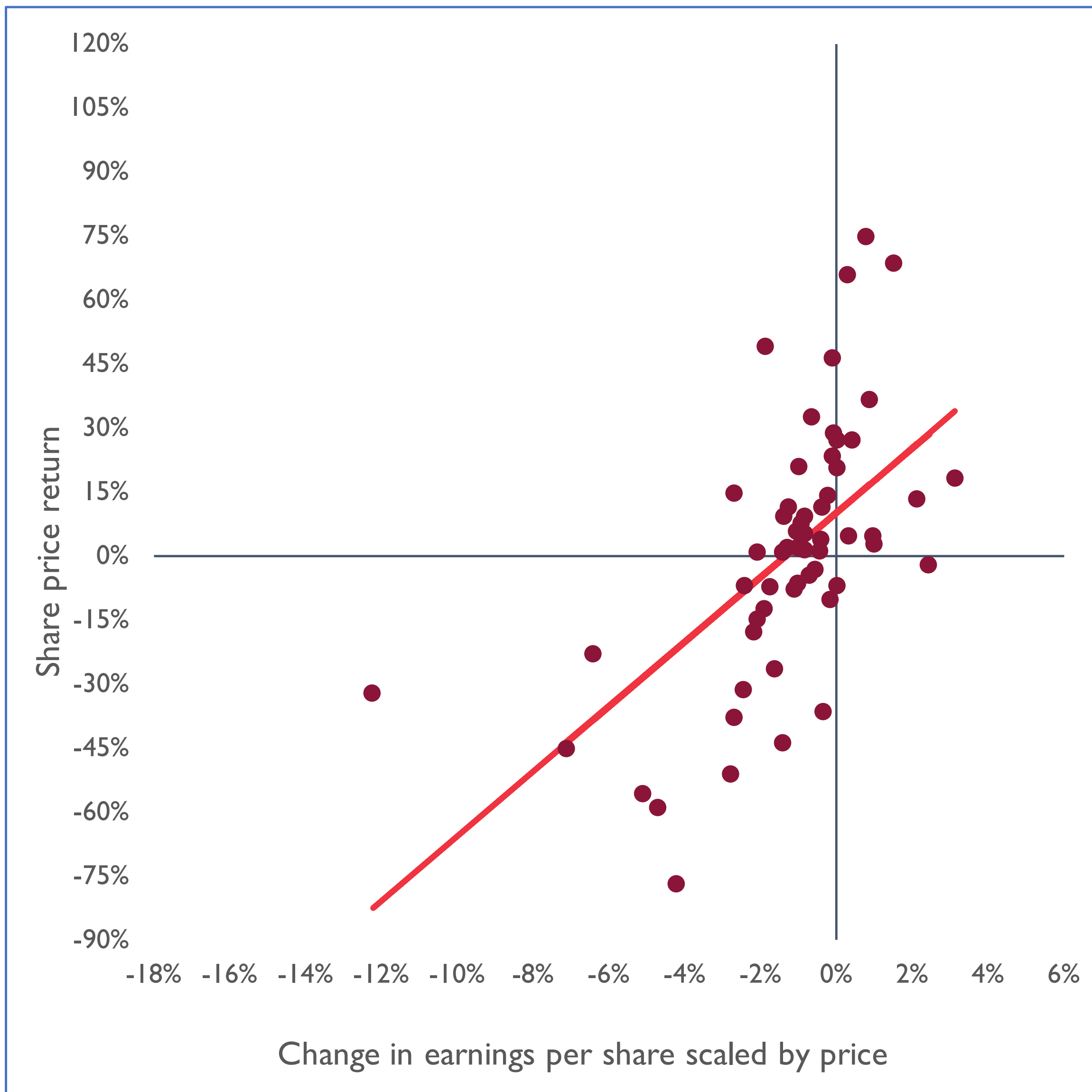
Figure 1. Industry percentage share price change vs FY2022 EPS change scaled by price



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Always online retail

Consumers are spending and retailers with an online presence are the beneficiaries. In the first quarter of calendar 2020, on a seasonally-adjusted basis, e-commerce sales of $160 billion represented 11.8% of all retail sales of $1,364 billion.[5] By the third quarter of calendar 2020, e-commerce sales were $210 billion (up 37%) and represented 14.3% of all retail sales of $1,469 billion. Now that we are all familiar with exponential growth curves, don't hesitate to apply those curves to online retail spending.

In Table 3 and Figure 2 I show earnings yields, changes in earnings yields and returns for seven industries that suggest the pandemic has been a catalyst for the online retail trend to accelerate. Industries are ranked by abnormal return (the gap between the industry average share price change and the change predicted by the industry's earnings revisions).

Consider the eight companies classified as Online & Multiline Retailers, for which earning per share expectations increased by 0.8% of share price and stock returns averaged 75%. Abnormal returns include 166% for Etsy, 102% for Target and 103% for GrubHub. Air Freight & Logistics companies had, on average, downward earnings revisions, but had average abnormal returns of 27%. Abnormal returns in FedEx, UPS and Hub Group were 48%, 24% and 34%, respectively.

Department store companies do not appear in the sample because of a lack of analyst coverage. But the real estate investment trusts which own the property the stores sit on, have suffered a significant earnings and return shock. On average, abnormal returns in Retail REITs are -43%. The market is telling us that consumer shopping habits have been permanently altered, accelerating the repurposing of shopping mall property to less valuable uses.

[5] U.S. Census Bureau News, November 19, 2020. "Quarterly retail e-commerce sales."

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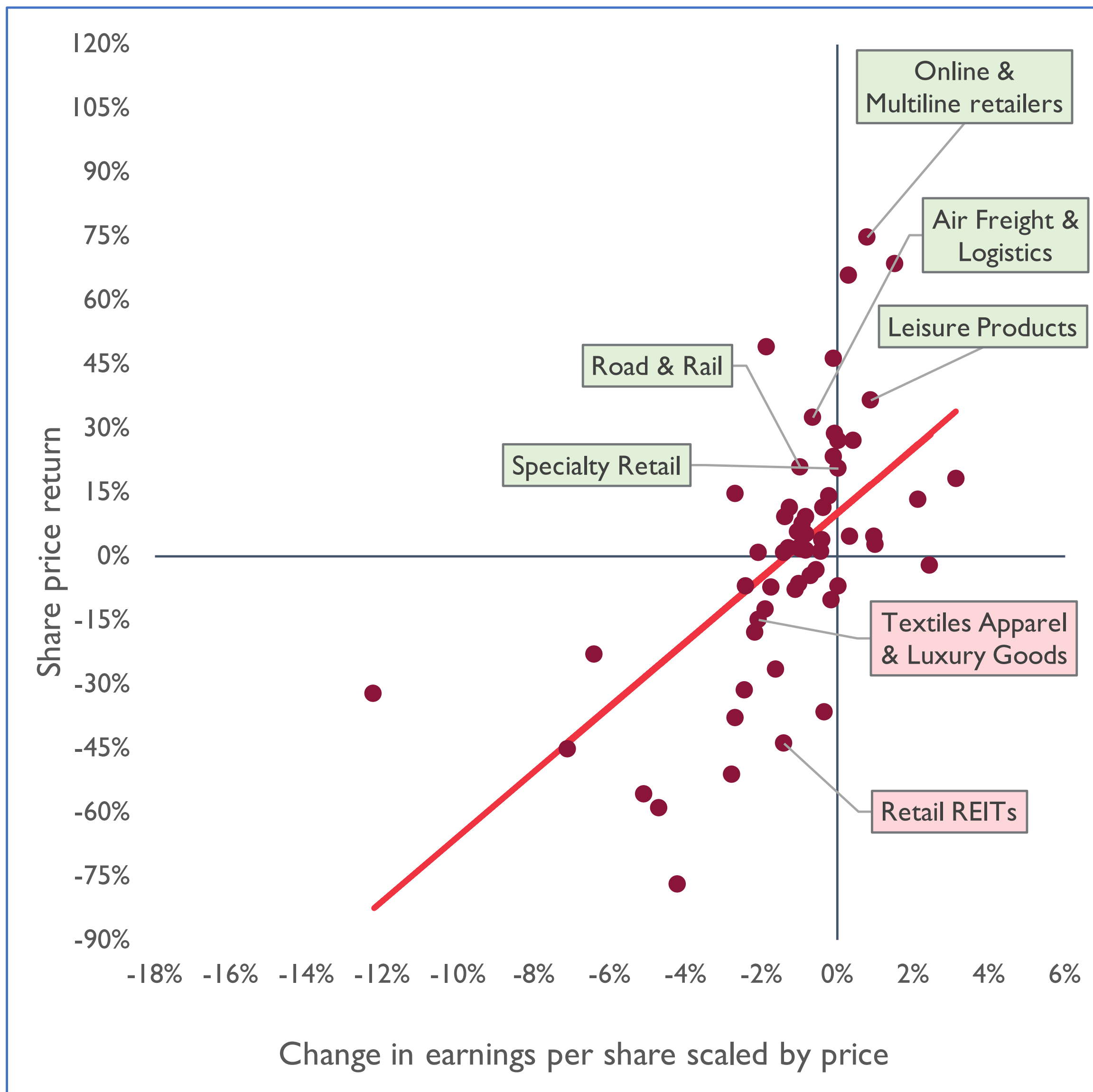
Table 3. Earnings yield and return: Always online retail

Industry	N	EY0	EY1	EY2	EY3	Chg EY 0-3	Return	Normal return	Abnormal ret
Online & Multiline retailers	8	6.6	6.4	7.1	7.5	0.8	74.6	16.2	58.4
Air Freight & Logistics	6	8.4	7.8	7.5	7.8	-0.6	32.5	5.3	27.2
Leisure Products	3	9.0	6.7	8.7	9.9	0.9	36.4	16.7	19.6
Road & Rail	5	7.5	6.8	6.3	6.5	-1.0	20.8	2.6	18.2
Specialty Retail	20	10.7	8.6	7.0	10.7	0.0	20.6	10.2	10.4
Textiles Apparel & Luxury Goods	10	7.8	6.8	5.1	5.7	-2.1	-14.9	-5.6	-9.3
Retail REITs	9	2.9	2.7	1.3	1.5	-1.4	-43.9	-0.5	-43.4

Figure 2. Share price and EPS changes: Always online retail



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Disaggregated workforce

There is disagreement amongst, executives, office workers and investors over the extent to which workspaces will be disaggregated once the office returns to a low risk environment. In favor of the office is the argument that it fosters spontaneous communication amongst employees – the benefits of which are dispersion of corporate knowledge and ideas – and the innovation and productivity gains that result from frequent, direct and indirect communication. The counter-argument is that the office is an expensive piece of real estate that we can do without as remote communication improves – office workers can learn to communicate better. QIC (an Australian institutional investor) believes that half of white-collar employees will work from home two days per week, and that individual desks will comprise just 35% of net lettable area, down from 55% at present, with the remaining office space devoted to collaborative space.[6]

The earnings and share price data suggests that there will be substantially lower utilisation of the office, post-pandemic. This underscores a trend of disaggregation of the workforce that has been occurring for some time. Workplaces progressed from single-occupancy offices to cubicles to hot desks and collaborative workspaces. Can the disaggregated workforce spur exactly the same innovations as teams which operate in a shared space? The consideration though, is how much utilisation of the office is necessary for the sharing of ideas and corporate knowledge. How much innovation does a square foot create versus streaming MB per second?

- The industry at the bottom of Table 4, Commercial Services & Supplies, is comprised of one company, Interface, a commercial flooring company. The company's abnormal return is -34%.
- The second-lowest abnormal return industry is Mortgage REITs. There are three REITs in this industry, all of which provide commercial loans: Granite Point Mortgage Trust, Ready Capital Corporation, and KKR Real Estate Finance Trust. The securities' abnormal returns are -37%, -16% and -16%, respectively.
- The sample also comprises two Real Estate Management & Development companies: Jones Lang LaSalle and CBRE. These companies' abnormal returns are -21% and 3%, respectively.
- At the other end of the spectrum, the average earnings expectations of Software companies have barely moved (down 0.1%) but the average abnormal return is 19%. This cohort includes Cadence Design Systems (computational software, 74%), Microsoft (operating systems, 32%), and Adobe (design software, 43%). 10 of 11 Software companies have positive abnormal returns.
- On average, the seven companies in the Building Products industry have positive abnormal returns of 14%.
- Finally, the average abnormal return to three Construction & Engineering companies is 1%, despite an average earnings downgrade of 1.3%.

Consider jointly the share price declines of companies exposed to commercial real estate, and the positive share price changes for companies that sell software as well as the benefit from home construction, there is a long-term shift from office work to work from home. Software and Building Products companies' earnings have been insulated from the economic downturn, but their average abnormal returns are around 14% to 19%.

[6] QIC, November 2020. "Implications of working from home (WFH) on the office real estate sector.

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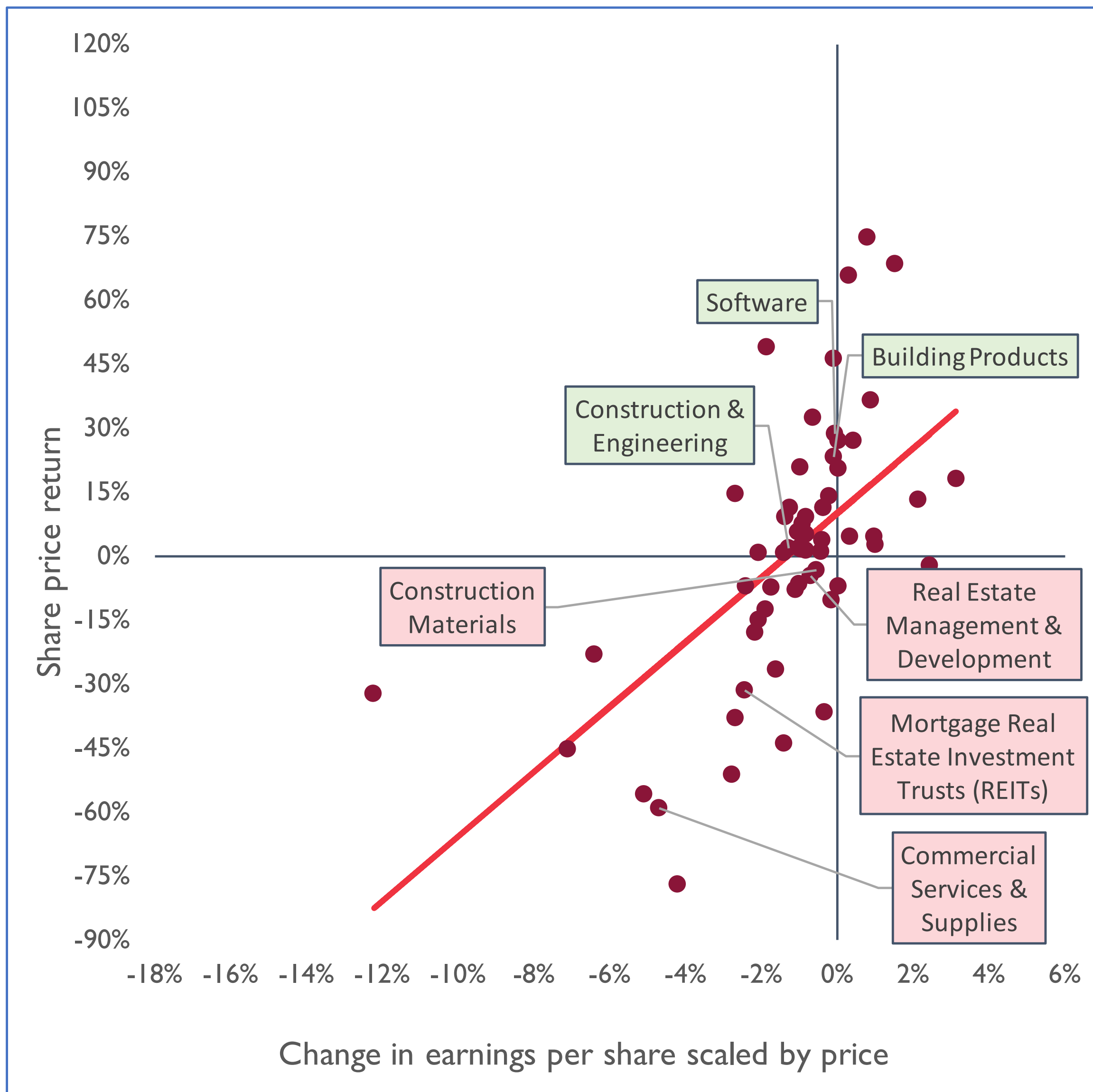
Table 4. Earnings yield and return: Disaggregated workforce

Industry	N	EY0	EY1	EY2	EY3	Chg EY 0-3	Return	Normal return	Abnormal ret
Software	11	4.1	4.1	4.0	4.0	-0.1	28.6	9.5	19.1
Building Products	7	6.8	6.6	6.4	6.7	-0.1	23.1	9.3	13.8
Construction & Engineering	3	8.7	8.1	7.4	7.5	-1.3	1.8	0.4	1.4
Construction Materials	3	6.3	5.9	5.4	5.8	-0.5	-3.2	6.0	-9.2
Real Estate Mgmt & Development	2	8.1	8.3	6.9	7.4	-0.7	-4.6	8.4	-9.3
Mortgage REITs	3	9.4	9.1	6.7	7.0	-2.4	-31.4	-8.5	-22.9
Commercial Services & Supplies	1	11.9	9.9	8.8	7.2	-4.7	-59.1	-25.4	-33.7

Figure 3. Share price and EPS changes: Disaggregated workforce



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Health: Prosperity for life sciences and health insurers

The long-term prospects for Health Care companies have improved to a modest degree over the last year. Companies classified as Life Sciences Tools & Services, and Health Care Providers & Services recorded average abnormal returns of 37% and 17%, respectively. Provision of health care in the United States is expensive and inefficient. On average each year the U.S. spends $11,000 per person on health care, double the $5,000 spent in Canada and the U.K. and the $6,000 spent in Australia. Yet avoidable mortality in the U.S. is 262 per 100,000 people, compared to 176 in Canada, 189 in the U.K. and 208 in Australia.[7]

In Life Sciences Tools & Services, seven of eight companies experienced positive abnormal returns. Repligen (biological drug material) was the highest returning stock over the period, recording an abnormal return of 139%, despite its 2022 earnings yield being upgraded by just 0.6%. Following the release of third quarter earnings, William Blair noted that:

> Repligen and other bioprocessing players are reporting extremely strong (though likely unsustainable) revenue and order growth at present, thanks to robust underlying demand from a growing biologic development pipeline, surging activity in gene and cell therapy, and now the added bolus from COVID-19 vaccines and therapeutics.[8]

In Health Care Providers & Services, 10 out of 16 companies experienced positive abnormal returns. This segment includes seven health insurers (Anthem, Centene, HealthEquity, Humana, Molina Healthcare, UnitedHealth and Cigna) and one revenue management company (R1 RCM). In other words, eight of the ten companies in the Health Care Providers & Services industry that earned positive abnormal returns were in the finance side of health care. The highest-performing health insurer was Humana, which recorded an abnormal return of 33%. JP Morgan passed on commentary from Humana about long-term industry trends.

> [Humana] has accelerated telephonic and telehealth member interactions this year and believes its sickest members have received the necessary care, [and] the health of its members has not deteriorated … the majority of telehealth adoption has been physician-push vs member-pull. [Humana] believes it will benefit from a secular shift towards lower cost sites of care. [Humana] perceives a shortage of quality capitated medical providers, and a benefit of the increasing investment in the sector. [Humana] cites one-third of its members as enrolled in capitated provider arrangements. [A capitated provider arrangement is one in which the heath care provider is paid per patient on a regular schedule, regardless of the costs incurred in treating the patient.][9]

The average negative abnormal return of Health Care Technology companies (-13%) results from two companies. The earnings yield of CPSI (market cap ~$400 million) increased from 9.6% to 11.9% but the company's share price only increased by 3% resulting in an abnormal return of -24%. The other company in the industry is Cerner (market cap ~$23 billion). Cerner's earnings yield fell from 6.0% to 5.6% and its share price increased by 6%, resulting in an abnormal return of -1%. It is not obvious why the share price of CPSI has lagged changes in its earnings expectations.

[7] stats.oecd.org, accessed on December 3, 2020.
[8] William Blair, November 5, 2020." Repligen Corporation: Post-Call Model Adjustments; Increasing Estimates Again as Order Flow Surges to Accommodate COVID-19 Demand."
[9] J.P Morgan, November 23, 2020. "Humana: Key points from the virtual road."

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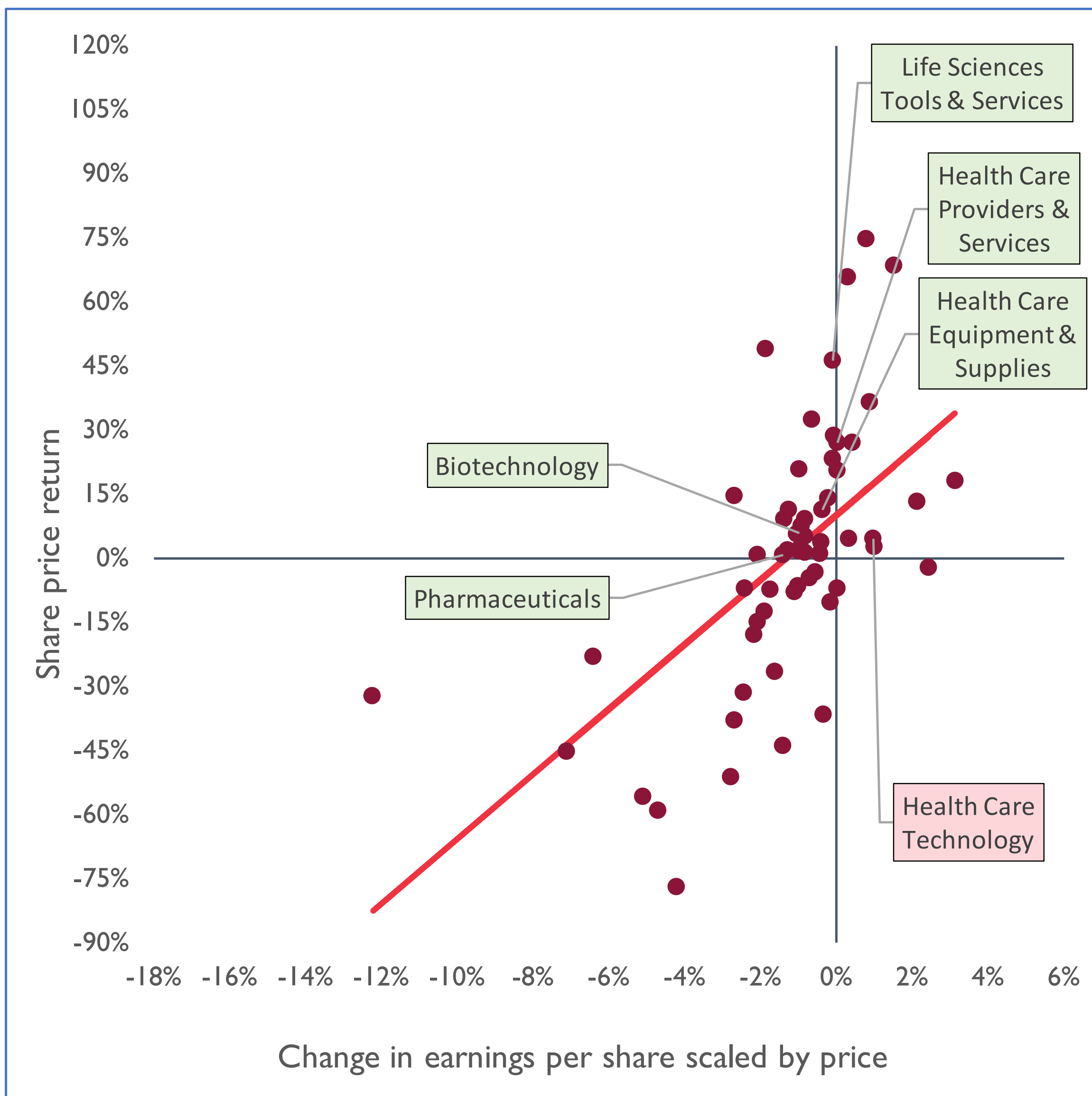
Table 5. Earnings yield and return: Health

Industry	N	EY0	EY1	EY2	EY3	Chg EY 0-3	Return	Normal return	Abnormal ret
Life Sciences Tools & Services	8	5.2	5.1	5.0	5.1	-0.1	46.2	9.4	36.8
Health Care Providers & Services	16	10.1	9.9	9.6	10.2	0.0	26.9	10.4	16.5
Health Care Equipment & Supplies	30	4.5	4.3	3.9	4.1	-0.4	11.3	7.2	4.1
Biotechnology	20	4.3	4.2	4.0	3.4	-1.0	5.9	2.7	3.2
Pharmaceuticals	17	12.1	11.3	10.6	10.7	-1.4	0.8	-0.5	1.3
Health Care Technology	2	7.8	8.3	8.8	8.7	1.0	4.7	17.4	-12.8

Figure 4. Share price and EPS changes: Health



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Experience: Back in business

Summary

Companies that offer customer live experiences like travel, live entertainment and dining have had their earnings expectations slashed for FY2022. For instance, the average earnings yield on eight Airlines companies fell from 14.0% pre-pandemic, to 5.9% by March and to just 1.8% in the current state of play, an overall decline of 12.2%. Earnings yields declined for Hotels Resorts & Cruise Lines (down 6.4%), Casinos & Gaming (down 1.8%), Entertainment (down 1.4%) and Restaurants (down 0.8%). But the share prices of stocks in these industries suggests consumer demand for live experiences will quickly rebound in a post-pandemic world.

Airlines

For U.S. airlines, there is likely to be a three-year revenue impact from the pandemic, according to projections from Deutsche Bank, which forecasts revenue returning to 2019 levels by 2023. As benchmarks, the analysts note that it took four years for airline revenue to recover from the September 11, 2001 terrorist attack, and the same time to recover from the 2008-09 global financial crisis.[10]

The average share price decline for Airlines stocks was 32% and the range of price declines across eight airline stocks is 7% to 57%. But this represents a positive abnormal return of 50%, compared to a normal return of -82% for such a precipitous decline in earnings outlook. An indication of Americans' enthusiasm for travel is the fact that, with COVID-19 cases surging, passenger throughput on the day prior to Thanksgiving was at 41% of 2019 levels.[11]

Hotels, Resorts & Cruise Lines

All eight companies in the Hotels, Resorts & Cruise Lines industry had their earnings downgraded, with the biggest reductions affecting three cruise lines: Norwegian (earnings down 12.0%, share price down 62%), Royal Caribbean (earnings down 10.8%, share price down 46%) and Carnival (earnings down 10.5%, share price down 67%). The cruise travel crowd is a passionate lot. Reporting on the Norwegian third quarter earnings call, Deutsche Bank stated that "loads for 2H21 and 2022 are in line with historical ranges at pricing that is similar or even slightly higher than year-ago levels on a like-for-like basis."[12]

Casinos & Gaming

There are three Casinos & Gaming companies in the sample (Penn National Gaming, Boyd Gaming and MGM Resorts). Their share price performance has been markedly different, which reflects different exposure to online gaming versus in-person experiences. Penn National Gaming has experienced a return of 162%, compared to 21% for Boyd Gaming and -36% for MGM Resorts). On February 20, 2020, Penn completed an acquisition of a 36% stake in Barstool Sports (sports media) for $163 million.[13] The Barstool Sportsbook app launched on September 18, 2020.[14]

[10] Deutsche Bank, November 20, 2020. "The View (from 35,000 feet): Vaccine headlines are good for stocks; less so for revenue."
[11] In 2019, TSA checkpoint throughout was 2.6 million versus 1.1 million this year. https://www.tsa.gov/coronavirus/passenger-throughput, accessed on December 1, 2020.
[12] Deutsche Bank, November 11, 2020. "Focus shifts to recovery from liquidity, but stock reflects more optimism"
[13] Penn National Gaming, February 20, 2020. "Penn National Gaming completes acquisition of 36% interest in Barstool Sports for $163 million."
[14] Penn National Gaming, September 8, 2020. "Penn National Gaming to soft launch Barstool Sportsbook app in Pennsylvania on September 15."

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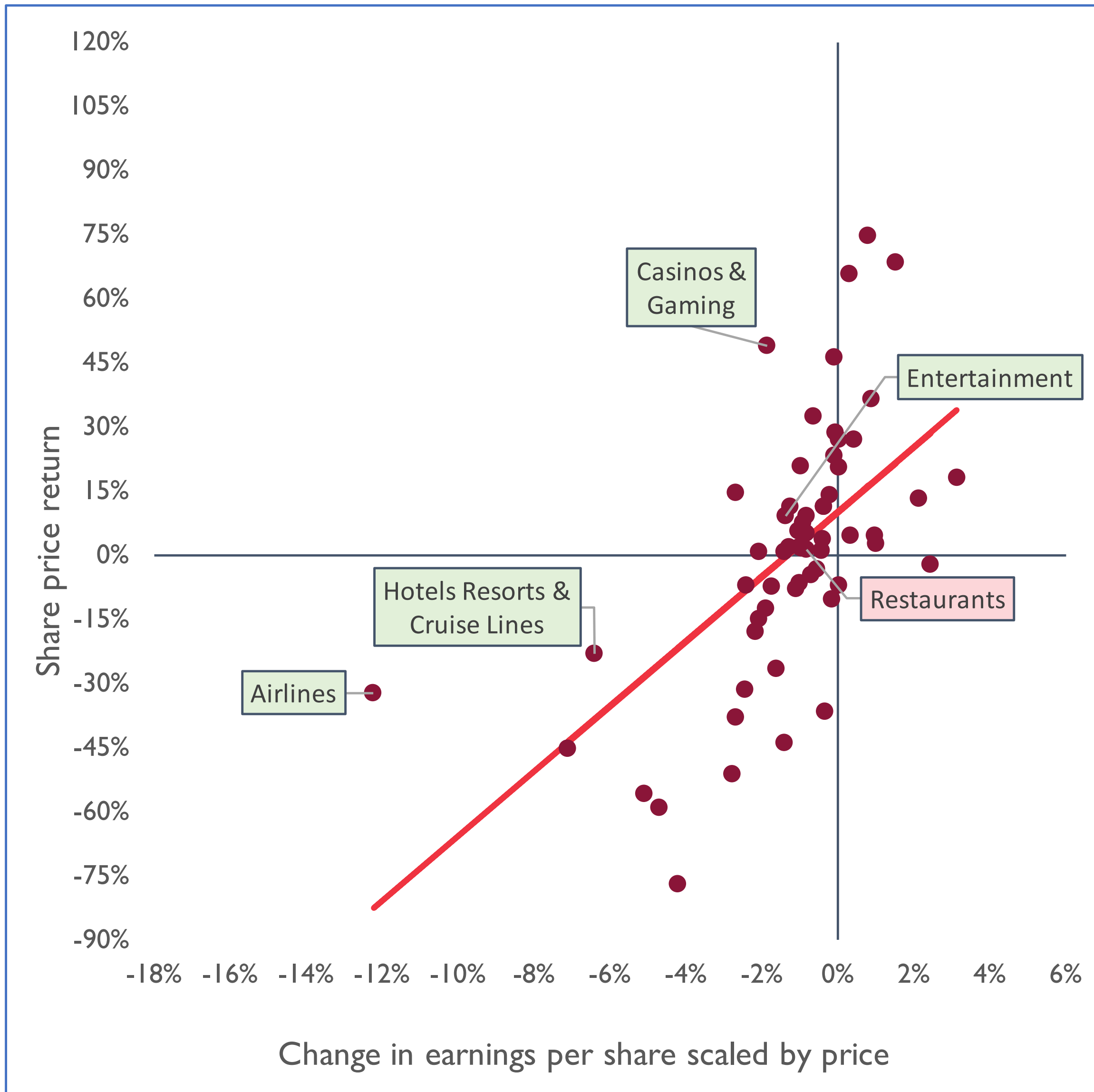
Table 6. Earnings yield and return: Experience

Industry	N	EY0	EY1	EY2	EY3	Chg EY 0-3	Return	Normal return	Abnormal ret
Casinos & Gaming	3	9.1	9.4	4.9	7.2	-1.8	48.9	-4.0	52.8
Airlines	8	14.0	5.9	1.7	1.8	-12.2	-32.2	-82.4	50.2
Hotels Resorts & Cruise Lines	8	10.9	9.6	4.4	4.5	-6.4	-23.0	-38.3	15.4
Entertainment	8	5.6	4.7	4.2	4.2	-1.4	9.1	-0.3	9.4
Restaurants	15	4.8	4.7	3.7	4.0	-0.8	1.4	3.9	-2.5

Figure 5. Share price and EPS changes: Experience



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Conclusions

- **Always online retail.** The share market is pricing in COVID-19 as a catalyst for an even faster transition to online retail. The average stock price returns to eight companies classified as Online & Multiline Retailers is 75% (abnormal returns of 58%), despite earnings expectations increasing just 0.8%. In contrast, retail REITs declined by an average of 44% (abnormal returns of -43%) in response to a 1.4% fall in earnings expectations.
- **Disaggregated workforce.** The market anticipates a disaggregated workforce, given the price falls for securities exposed to commercial office space: Commercial Services & Supplies, Mortgage REITs and Real Estate Management & Development. All six securities in the sample experienced reductions in earnings expectations and share price reductions, and all but one of them had negative abnormal returns. In contrast, of the 18 companies classified as Software and Building Products, 15 had positive abnormal returns.
- **Health.** The market is pricing in long-term earnings upside for life sciences companies and health insurers. Companies in these two health care segments are likely to benefit for different reasons. Life sciences companies are likely to benefit from the recognition that medical breakthroughs can happen fast and be transformative. Health insurers are likely to benefit from efficiencies in delivery of health services. Just as there are advantages to seeing doctors in person – they will pick up health concerns with observations and conversation – we could make similar arguments about other professional services that have moved online. The observational aspect of a consultation is important, but what about all the routine treatment delivered on the basis of the patient's self-described symptoms, for which an in-person consultation is time-consuming and unnecessary?
- **Experience.** The share prices of travel, restaurant and other experience companies suggest that in-person entertainment spending is simply on pause. Expect planes, cruise ships and hotels to be at regular occupancy by 2023. Even cruise lines – arguably the single most exposed industry to COVID-19 and bleeding red ink – have only lost around 60% of equity value on earnings reductions which are around 11% of pre-crisis share price. In the meantime, the share market expects consumers to get their kicks from betting on football, if the share price of Penn is any indication. Expect the sports betting market to run up the score.

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