



Bendio

Investments in the World Cup

Russia 2018

ASSET MANAGEMENT
UNIT

CÉSAR DÍAZ LOYO

World Cup Fever

On June 14, will begin the most anticipated sporting event of the year, the FIFA World Cup in Russia. This sporting event is one of the most televised in the world, it is expected that about 3.2 billion people will watch the Cup (almost half of the population of the planet). The most sold products and services in the world during this event are: alcoholic beverages, clothing and sporting goods, energy drinks, soft drinks, cable subscriptions, fast food, advertisements, among others.

Each time a country is selected as the venue for the World Cup, it grows economically, driven by government spending in stadiums, airports and other public services. For example, Brazil invested close to US\$ 11 billion; South Africa US\$ 6 billion; Germany US\$ 2 billion. To this public expenditure is added the capital of investors in the tourism sector, due to high expectations. Around this sport economy, there are great brands of consumption and

service that are always present in advertisements and are great sponsors of FIFA and national teams. The most notables are: NIKE INC, ADIDAS AG, PUMA SE, QATAR AIRWAYS, HYUNDAI / KIA MOTORS, THE COCA COLA COMPANY, VISA, MASTER CARD, AB INBEV, MCDONALDS CORP.

If we observe the returns in the price of these companies, in the years that the World Cup has been celebrated, we see that in the last five World Cups, companies as: THE COCA COLA COMPANY (ticker: KO), MCDONALDS CORP (ticker: MCD) , AB INBEV (ticker: ABI) AND PUMA SE (ticker: PUM), are the stocks that have had the best performance during the seasonality of the World Cup.

Returns in the months leading up to the World Cup

In the months before the event is where the expectations of investors are the highest. Therefore, we observe the returns of the mentioned shares and compare them with their benchmark stock indices.

In table 1 (annex), we have the returns of the US companies before mentioned and compare with their benchmark, the S&P 500 (ticker: SPX). As evidenced in the table, MCD and KO, show better returns in US\$ compared to their stock index. KO, on the other hand, has more performance during the observed period. In the second quarter of 2010 it had negative returns, but it was better than the SPX. In second place we have MCD with an average return of 7.90% in the last 5 cups.

In table 2, we can see the performance of European companies before mentioned and compare with their benchmark, the Euro Stoxx 50 (ticker: SX5E). As we can see, PUM and ABI show better returns in euros against the

European stock index. PUM is the stock with the highest average performance during the 2nd quarter in the World Cup years. This company will sponsor Switzerland, Senegal, Uruguay and Serbia this year.

In 2006 PUM, ABI and SX5E had negative returns. In that year who suffered less was ABI, therefore, it is the least risky. The company AB INBEV (ABI) is the manufacturer of several brands of beer such as Budweiser, Aguila, Corona, Stella Artois, Brahma, Quilmes, among others.

With these observations we see that, the companies that lead during the 2nd quarter of the World Cup years are those of mass consumption. The sectors of these stocks are located in: fast food (MCD), non-alcoholic drinks (KO), alcoholic beverages (ABI) and sportswear (PUM).

Seasonal economic growth

As we mentioned earlier, due to public spending and private investments in the previous years and during the event, the economy of the host countries experience a seasonal economic growth.

Russia has spent about US\$ 12 billion on the adaptation for the Cup. The Russian economy grew 1.7% in 2017 and it is expected that by 2018 it will grow 1.8%.

The high economic expectation generated by the event should have a positive effect on the stock indexes of the host countries. To verify this hypothesis, we observe the behavior of the indices and compare with the American and European markets during the previous quarter to the World Cup.

In Table 3, we can see that the stock indices have positive behavior in the second quarter before the World Cup, with the exception of the DAX of Germany and the Kospi of South Korea.

The investments made in these Indexes are made in the local currency of each country, therefore, you have to measure the exchange risk.

In table 4, we can see the percentage behavior of the exchange rate of local currencies against the US\$. During the previous quarter to the World Cup, the currencies of each host country appreciates. Therefore, the exchange risk in this investments is diminished.

Investment recommendation

The World Cup can be not only for recreation, we can take advantage of this event by investing in stocks such as MCD, KO, ABI and PUM in our portfolios. If we want an investment with lower specific risk, we can invest in the Russian stock index. A liquid ETF (Exchange Traded Fund) that contains investments in Russian companies, is RSX. This ETF has investments in Russian energy companies, telecommunication companies, banks, among others.

Annex

Table 1. SPX, MCD y KO returns.

Ticker	1998	2002	2006	2010	2014	Promedio
SPX	2,84%	-5,85%	-2,24%	-2,87%	6,73%	-0,28%
MCD	20,43%	13,30%	-3,36%	7,52%	1,62%	7,90%
KO	14,35%	17,13%	3,42%	-2,40%	10,10%	8,52%

Table 2. SX5E, PUM y ABI returns.

Ticker	2002	2006	2010	2014	Promedio
SX5E	-5,48%	-5,69%	-8,79%	4,32%	-3,91%
PUM	55,79%	-9,96%	9,62%	5,82%	15,32%
ABI	5,80%	-2,00%	9,32%	10,55%	5,92%

Table 3. Returns of stock indices of each host country.

Ticker	1998	2002	2006	2010	2014
SX5E	15,94%	-5,48%	-5,69%	-8,79%	4,32%
S&P500	2,84%	-5,85%	-2,24%	-2,87%	6,73%
CAC (FRANCIA)	22,24%				
NIKKEI (JAPÓN)		8,78%			
KOSPI (SUR COREA)		-4,67%			
DAX (ALEMANIA)			-7,61%		
JSE (SUDÁFRICA)				2,15%	
BOVESPA (BRASIL)					22,01%

Table 4: Changes of local currency against the US\$ in the host countries.

Ticker	1998	2002	2006	2010	2014
FRANCIA EUR/USD	2,55%				
JAPÓN USD/JPY		-6,86%			
SUR COREA USD/KRW		-7,00%			
ALEMANIA EUR/USD			6,11%		
SUDAFRICA USD/ZAR				-2,85%	
BRASIL USD/BRL					-4,98%

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