**Introduction**

More than 1 year after its outbreak, the coronavirus pandemic continues to wreak havoc on the world’s economy. It is imperative that we understand the consequences of this pandemic on the economy in order to better respond to future outbreaks of diseases. Its long-term impact cannot be analysed at the current time, but there is plenty of literature around the short-term effects of covid-19 on different areas of the economy. Although investigating the impact of covid-19 on the health of the overall economy is an important topic, I will leave that for other researchers to investigate. Hence, the purpose of this investigative research is to determine the short-term impact of different announcements on stock market returns.

The S&P 500 index has grown by 24.63% since the US encountered the first coronavirus case in its own borders, on January 21st, 2020 (Google, 2021). It is clear that the index fluctuations can be explained in part by the different unexpected announcements, and in part by insider information. This paper aims to identify whether there were significant cumulative abnormal returns (CARs) around 2 vaccine distribution approval announcements during the pandemic using an event study methodology. The abnormal returns of each company will be calculated then aggregated per industry to find industry-specific CARS.

The companies in the S&P 500 are grouped in 11 sectors, namely Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Communication Services, Utilities, Real Estate (MSCI, 2021). Of these, the energy, real estate, financials, utilities, consumer staples, industrials and healthcare sectors have underperformed in 2020 when compared to the average returns of these industries between 2010-2019. (Statista Research Department, 2021). Previous studies also suggest that specific sectors may be affected in different ways in the event of a pandemic, such as hotels, pharmaceutical and biotech sectors (Al-Awadhi, Alsaifi, Al-Awadhi, Alhammadi, 2020).

Hence, the following research question is put forward:

*What is the effect of covid-19 vaccine approval announcements on equity market returns per industry within the S&P 500?*

It is important to tackle this question to test the efficiency of the market as well as identifyindustries which are less conducive to virus transmission.. The answer to this question is therefore important for investors, as well as for the general workforce. What is more, the above question can be broken down into multiple sub-questions, as per the literature review below. One such question is: “Does the ownership structure matter? i.e. do different levels of insider vs institutional ownership lead to larger abnormal returns? Another sub-question is “Which company fundamentals have an effect on the (abnormal return) in a company or industry?”. And “Are the results of the analysis of the chosen event dates consistent with each other?”.

**Literature review and hypothesis**

He, Sun and Zhang (2020) start their paper stating that 2020 will be recorded in history because of an extraordinary turn of events. They study the impact of covid-19 on stock prices through an event-study methodology. The event day of the Covid-19 outbreak is January 23rd, 2020. Their regression shows that the Shanghai and Shenzhen A-shares showed no significant cumulative abnormal returns on the day of the outbreak. However, starting with the 15th day after the outbreak, both stock exchanges’ shares significantly dropped. They find that the CARs were negative for the Shanghai stock exchange (SE) and positive for the Shenzhen SE. This discrepancy is explained by differences in industry characteristics of the companies listed on each exchange. In particular, the Shanghai SE listed companies are mostly based in the transportation, mining, electricity and heating and environment industries whereas the Shenzhen SE includes companies which are highly technological. Hence, the following sub-question:

*What is the effect of company fundamentals and their corresponding sector on stock price reaction around the time of the vaccine approval announcements?*

He, Sun and Zhang (2020) further break the impact of covid-19 on each industry with different event windows. 30 days after the event day, the sectors which showed the largest negative CARs are agriculture (CAR ~ -1.12%), electric&heating (CAR~ -0.59%), transportation (CAR ~ -0.33%), environment (CAR~-0.73%) and information technology (CAR~ -0.65%). These are significant at the 1% confidence level. Lastly, He, Zun and Zhang (2020) investigate how covid-19 impacted companies with different equity properties, and argue they have different capabilities to deal with external shocks. They find that the non-technological companies showed significant negative CARs on all event windows chosen. In contrast, most technological companies showed significant positive CARs on all event windows.

*H1: Companies exhibited cumulative abnormal returns around the vaccine approval announcements.*

In another paper, Xiong, Wu, Hou and Zhang (2020) investigate the investors’ responses to the covid-19 pandemic using the event study method. They find that institutional investors have a significantly negative impact on market reaction of the companies. They also show that firms in the industries that are more affected by the emergence of the virus show significantly lower CARs. They take over which industries are vulnerable to a pandemic from previous research by Kong and Su (2019) and Shen et al. (2020). They also use an event study methodology and various regressions to explain their findings. Cheng, Jang and Kim (2020) examine the effect of the SARS outbreak on Taiwanese hotel stock movements. Hotel stocks had significant declines in earnings and stock prices, as the industry faced higher than average risk during the SARS-outbreak period.

From a theory standpoint, this research paper will determine to what extent the efficient market hypothesis holds, namely whether the vaccine approval announcements had an impact on stock prices. From an empirical perspective, this paper will determine whether there were abnormal returns in the S&P 500 around the vaccine approval announcements, controlling for industry type and company fundamentals. This is in contrast with most other papers, which investigate abnormal returns in the beginning of the pandemic, and which largely do not control for company fundamentals.

Wu, Hou, Zhang (2020) look at how other fundamentals and characteristics of a company and industry may have affected the returns using an event study methodology. The amount of cash held did not have a significant effect on the CARs they calculated. According to them, the industry, size, return on assets, the amount of leverage and fixed assets had a significant impact on stock returns. Chan, Hamao and Lakonishok (1991) look at the effect of the earnings yield, size, book to market ratio and cash yield on stock returns in the Japanese stock market. Of these, the book-to-market variable is the most positively impactful when predicting returns. The cash flow yield also had a significant positive impact on expected returns (Chan, Hamao and Lakonishok, 1991).

As the latter study is more technical and tests for many statistical assumptions, the market to book ratio and the cash flow yield effects on the abnormal returns of companies will be calculated. Hence, the following two hypotheses are formulated:

*H2: The book to market ratio of a company in a vulnerable industry\* had a positive effect on the abnormal return of that company.*

*H3: The cash flow yield of a company in a vulnerable industry had a positive effect on the abnormal return of that company.*

\*Vulnerable industry here implies transportation, food and beverage retail, hotel and tourism, postal warehouse, real estate, video entertainment and construction as per Xiong, Wu, Hou and Zhang (2020).

**Methodology and data**

This paper will use an event study approach to calculate the abnormal returns of individual companies within the S&P 500 index. First, the normal return will be calculated. Then, the normal return will be subtracted from the actual market return during the event window to calculate the abnormal return (AR). Finally, by adding up the individual ARs per event window and industry, I will get cumulative abnormal returns (CAR). The data on stock prices will be collected from Compustat – CRSP and the data on company and industry fundamentals will be taken from the WRDS database. The events to be researched are selected from the American Journal of Managed Care (AJMC). The AJMC (2020) provides a timeline of all important covid-19 announcements. The events are as follows:

**December 11 —** **FDA Agrees to EUA for COVID-19 Vaccine from Pfizer, BioNTech**

**December 18 — FDA Signs Off on EUA for Moderna's COVID-19 Vaccine**

**Planning**

The thesis will go in more depth with the relevance of the topic, the literature review, data selection and trimming and methodology. The data will be analysed using STATA. Furthermore, the results will be presented and conclusions as well as limitations will be drawn. In particular, the theoretical framework will be carefully explained and backed by scientific papers. The event study definition will be the one used by MacKinlay (1997).

References

Al-Awadhi, A. M., Alsaifi, K., Al-Awadhi, A., & Alhammadi, S. (2020, September). Death and contagious infectious diseases: Impact of the COVID-19 virus on stock market returns. Journal of Behavioral and Experimental Finance.

Chan, L. K., Hamao, Y., & Lakonishok, J. (1991, December). Fundamentals and Stock Returns in Japan. The Journal of Finance, 1739-1764.

Chen, M.-H., Jang, S., & Kim, W. G. (2007, March). The impact of the SARS outbreak on Taiwanese hotel stock performance: An event-study approach. International Journal of Hospitality Management, 200-212.

Google. (2021). Retrieved from Google : https://www.google.com/search?q=s%26p+500&safe=strict&rlz=1C1GCEA\_enRO864RO864&sxsrf=ALeKk02N-nMHc1941VdqWn3WmLTjNG57QA%3A1618609931967&ei=Cwd6YJXHOoyAkwXggLuwDg&oq=s%26p+500&gs\_lcp=Cgdnd3Mtd2l6EAMyBAgjECcyBQgAEJECMgQIABBDMgQIABBDMgQIABBDMgQIABBDMgIIADICC

He, P., Sun, Y., Zhang, Y., & Li, T. (2020). COVID–19’s Impact on Stock Prices Across Different Sectors—An Event Study Based on the Chinese Stock Market. Emerging Markets Finance and Trade, 2198-2212.

MSCI. (2021, 05 06). Retrieved from https://www.msci.com/gics

Qin, X., Huang, G., Huayu, S., & Fu, M. (2020). COVID-19 Pandemic and Firm-level Cash Holding—Moderating Effect of Goodwill and Goodwill Impairment. Emerging Markets Finance and Trade, 2243-2258.

Statista Research Department. (2021, Feb 4). Statista. Retrieved from https://www.statista.com/statistics/580711/sandp-500-returns-by-sector/#:~:text=Returns%20of%20S%26P%20500%20index,U.S.%202010%2D2020%2C%20by%20sector&text=In%202020%2C%20the%20IT%20S%26P,return%20amounting%20to%2043.9%20percent.

The American Journal of Managed Care. (2020). Retrieved from AJMC: https://www.ajmc.com/view/a-timeline-of-covid19-developments-in-2020

Xiong, H., Wu, Z., Hou, F., & Zhang, J. (2020, July). Which Firm-specific Characteristics Affect the Market Reaction of Chinese Listed Companies to the COVID-19 Pandemic? Emerging Markets Finance and Trade, 2231-2242.