



Corporate Resilience and Response to COVID-19

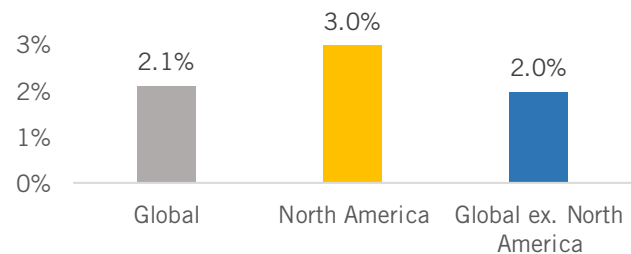
First evidence of returns as a function of a company's Crisis Response during the 2020 market collapse

As global markets grappled with the 2020 COVID-19 pandemic, companies across industries struggled to respond to rapidly evolving supply, demand, and labor issues. This was particularly pronounced when the S&P500 experienced a 27% drawdown between February 20th and March 23rd. As we look back on this crisis period, we want to know did returns have a systemic relationship to corporate responses on ESG characteristics? And what can be said about performance globally and across industries?

We studied the association between returns and company responses to issues plausibly pertinent during the crisis, which we referred to as “Crisis Response.” This characteristic leveraged natural language processing to capture sentiment on a company’s response to COVID-19 specific labor issues, supplier concerns, and in-demand products and services. Our results indicate that firms with more positive sentiment on their Crisis Response experienced fewer negative returns, relative to average returns for the period. As displayed, companies with more positive Crisis Responses generated a return premium between 2.1% and 3.0% regardless of location, with a 0.9% to 1.5% premium just from their response on “Human Capital” concerns. Yet, we observed variations on the significance of “Products and Services” and “Supply Chain” issues. Our results were stronger for firms with Crisis Responses that garnered more attention, or had “News Saliency.” Furthermore, we found that Crisis Responses mattered more in industries with more manual and routine labor, in industries heavily impacted by travel bans and social distancing, and in countries focused on customer satisfaction.

Our evidence challenges the notion that a company must sacrifice performance to protect personnel. Additionally, our findings suggest that firm disclosure practices and news outlets have a significant role in how corporate responses could influence performance. Finally, this is a compelling example of how advances in natural language processing can help investors navigate volatile market periods.

Industry and Country Adjusted Crisis Return Premium for Strong Corporate Crisis Responses



Note: The chart presents the relative return premium for a two standard deviation increase in a company's Crisis Response. Return premiums are calculated as two times a measure's standard deviation multiplied by the measure's regression coefficient. The sample used in the regression results included 3,023 global listed equities between February 20 and March 23, 2020. A company's Crisis Response captures sentiment on their response to human capital, supply chain and product and services issues during the sample period. Source paper noted in the page footer. Source Data: State Street Global Markets, MSCI market data and Truvalue Labs.


For more on this topic, see our paper **“Corporate Resilience and Response to COVID-19”** by Alexander Cheema-Fox, Bridget Realmuto LaPerla, George Serafeim and Hui (Stacie) Wang, published in the *Journal of Applied Corporate Finance* in Volume 23, Number 2, Spring 2021. To access paper, please use this link <https://onlinelibrary.wiley.com/share/author/YWEAEYPDWUAAAPJPMRWGN?target=10.1111/jacf.12457>

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