



Ninepoint International Small Cap Fund Market View

August 08, 2020

Dear Clients and Colleagues

Our commentary this week concludes that the impact of COVID-19 on the tourism industry will have disastrous consequences on the global economy, which we believe won't return to its 2019 level until 2023 or even later. No industry will be spared.

Tourism is the World's Largest Industry

Investment Team



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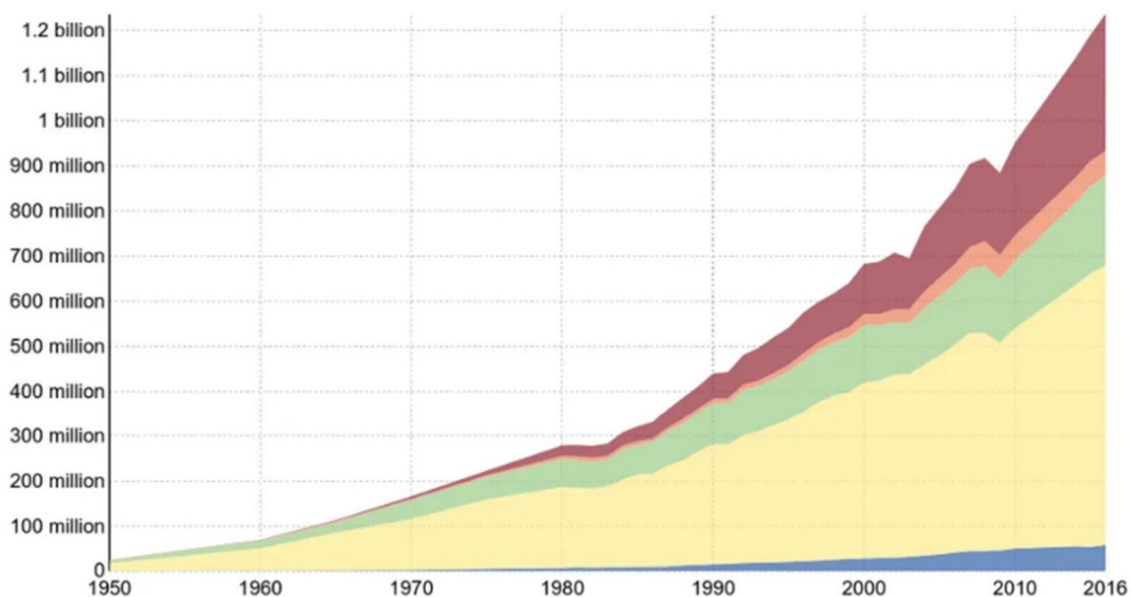
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International tourist arrivals by world region



Source: United Nations World Tourism Organization (UNWTO)
OurWorldInData.org/tourism/ • CC BY-SA

In 2019, according to the World Travel & Tourism Council, the direct and indirect impacts of travel and tourism accounted for the following:

- A US\$8.9 trillion (10.3%) contribution to the world's GDP
- 330 million jobs, or 1 in 10 jobs worldwide
- US\$1.7 trillion in visitor exports (6.8% of total exports, 28.3% of global services exports)

- US\$948 billion in capital investment (4.3% of total investments worldwide)
- International tourism ranks fourth (after fuel, chemicals and automotive products) in global exports
- There were 1.4 billion international tourists in 2018 (UNWTO)
- In over 150 countries, tourism is one of the top five sources of export revenue
- Tourism is the main source of foreign exchange for one third of developing countries and one half of less economically developed countries (LEDCs)

The impact of COVID-19 on international tourism has been devastating. According to UNWTO's data, the cost until the end of May was already three times higher than during the global financial crisis. Between January and May, tourist arrivals dropped by 56%, with May showing a 98% drop compared to 2019. There were 300 million fewer tourists and US\$320 billion in lost revenue.

Tourism is restarting slowly in some parts of the world. Safe zones for travelling have been created, such as the Schengen zone. However, confidence is fragile and demand is low. A resurgence of infections has already led to a rollback, along with new confinements or restrictions.

"This is the first time in 50 years that air traffic has experienced a downturn this abrupt, and recovery will be very gradual: a return to the 2019 traffic level in Paris is expected between 2024 and 2027," stated Augustin de Romanet, Chairman and CEO of international airport operator Groupe ADP(Aéroports de Paris), in a press release on Monday, July 27.

Airbus does not expect air traffic to return to pre-COVID levels before 2023, and potentially as late as 2025, obviously reducing demand for new airplanes. The aerospace sector supports more than 1.2 million jobs in the US and 215,000 jobs in Canada, generating a large trade surplus in both countries.

With the most optimistic scenario calling for an approved vaccine by late 2020 or early 2021, unrestricted travel and tourism will most likely have to wait until late 2021 at the earliest.

In the first quarter of 2020, around 30 million jobs were lost globally, more than the 25 million during the global financial crisis. In the second quarter, an estimated 195 million jobs were lost, and 1.6 billion people employed in informal jobs or the gig economy are struggling.

Due to its importance and the great number of people it employs, the tourism industry's collapse will affect many other industries.

1. Global demand for oil has dropped. BP just reported a \$17 billion loss and cut its dividend.
2. The luxury industry is also not immune. LVMH (Louis Vuitton) saw its sales drop 38% in the second quarter as many luxury purchases are made by tourists visiting cities like Paris, London or Hong Kong.
3. Even technology companies, despite a strong second quarter, may face difficulties ahead. In the second quarter, Google's revenues declined for the first time in the company's history. Eighty-four percent of Google's revenue is from advertising and 15% comes from travel.
4. New York City will lose around US\$10 billion from the drop in income, sales tax and tourism revenue. With a \$92 billion budget, it will be next to impossible to maintain the same level of services without raising taxes or getting help from the state and federal governments. Fewer

services and job cuts are also likely. New York City isn't alone, from Paris to Bali, tourism contributes significantly to many local economies.

5. This has also driven down real estate prices, both from international buyers and people renting through short-term platforms, like Airbnb.

6. In May, the UK saw house prices decline by 1.7% over the previous month, the largest decline in 11 years. In the US, house prices are still rising, but many areas have put a moratorium on evictions, which means immediate problems have been shifted to landlords and the banks. However, with unemployment at 11.1%, there might be trouble down the line.

Our conclusion is that the effects of the tourism industry's collapse will be felt across all economic sectors and will have long-term negative impacts on the global economy.

More than ever, this is an opportunity to invest in undervalued companies with fortress balance sheets; profitable businesses with a good proportion of recurring revenue that will increase their competitive edge and gain market share.

Have a good week!

The Global Alpha Team

MONTHLY RETURNS (%) AS AT JULY 31, 2020, SERIES F

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	2.0%	-12.0%	6.9%	-10.6%	-3.4%	-1.7%
Index	1.7%	-7.2%	8.3%	-6.3%	2.4%	-1.9%

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at July 31, 2020; e) since inception (March 15, 2018). The index is 100% MSCI EAFE Small Cap NR USD (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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