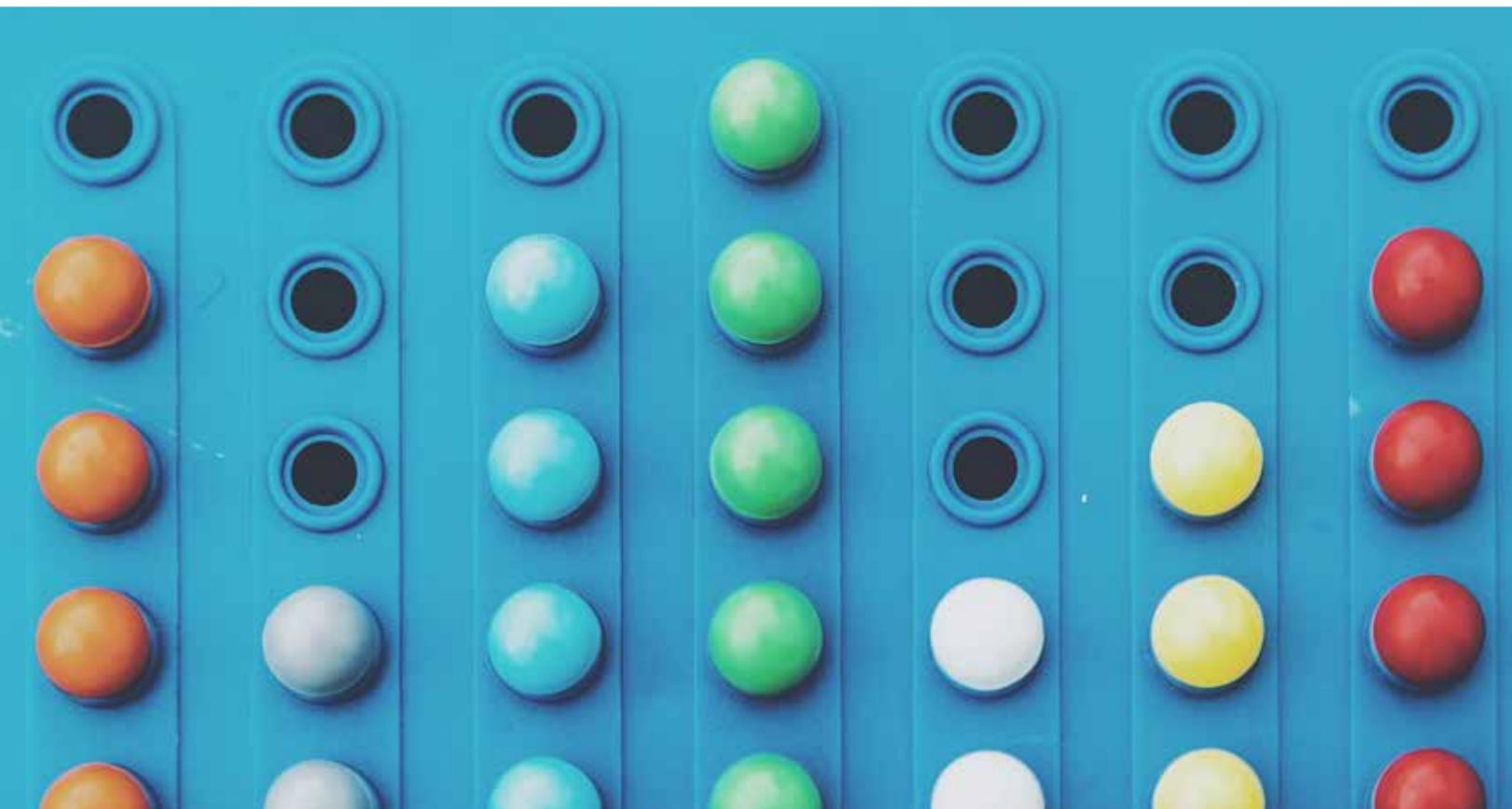


Chemicals Practice

Chemicals in capital markets: Temporary setbacks or new disruptive trends?

The global chemical industry is no stranger to setbacks in capital markets performance. A snapshot of recent trends may show the industry entering new territory.

by Obi Ezekoye and Chantal Lorbeer

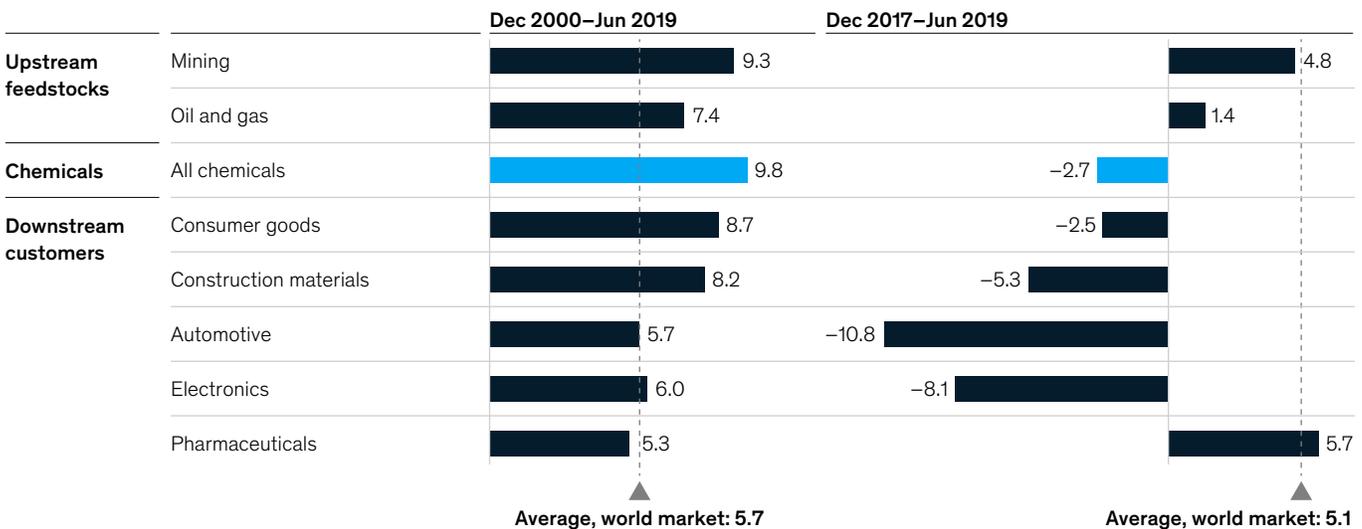


Since 2000, the chemical industry has been a leader in terms of total shareholder returns (TSR) among its value-chain peers. In the past 18 months, however, the industry's TSR performance has faltered (exhibit). This has happened once before. The collapse of oil prices in 2014 had far-reaching effects across the chemical industry—not just for petrochemicals—and resulted in a prolonged period of unsteadiness. However, China's strong market performance, among other factors, enabled chemicals to overcome economic concerns of capital markets. In fact, the TSR performance of the industry rebounded in 2016 and 2017 at a 24 percent compound annual growth rate (CAGR), reaching its peak in January 2018.

Exhibit

Chemicals in capital markets is no longer on the winner's podium.

Total shareholder returns (TSR), CAGR, %



Source: Datastream; McKinsey analysis

However, the decline in TSR performance in the past 18 months is significant. The most pronounced decline has been for diversified companies, with TSR performance at a –10 percent CAGR from December 2017 to June 2019. This drop marks an abrupt sentiment change among investors, who, leading up to the end of 2017, had enthusiastically supported the diversified sector by investing in companies that focused on markets or technologies. Commodity chemical companies have also been hurt, falling to a –7 percent CAGR from December 2017 to June 2019. Meanwhile, specialties have maintained a positive trend, up at a 3 percent CAGR. However, this number is significantly weaker than the 18 percent rate the sector had achieved in 2016–17, and it is not strong enough to keep the chemical industry in positive territory overall. In fact, the industry as a whole is down 3 percent.

From 2000 to the end of 2017, the chemical industry was the clear TSR leader in its value chain. Looking at the past 18 months, it has fallen behind upstream players as well as pharmaceuticals, despite faring better than most of its other downstream customers, such as automotive. Our research suggests that the industry is entering new territory—and that there are potentially more profound challenges to the industry's capital-markets performance than in the previous decline.

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