

## Vaccines - The Beginning of the End?

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November 2020 saw a welcome glimpse of a light at the end of the tunnel with positive phase 3 trial results for three vaccines. At the same time, COVID continued to spread dramatically, straining health systems around the world. What is the likely path forward and what are the implications for economies and markets?

Certainly, the news of positive phase 3 trial results from Pfizer/BioNTech, Moderna and AstraZeneca was welcomed by markets, with the MSCI World Index gaining almost 13% in November. A positive surprise was the effectiveness of the first two in particular, in the region of 90-95%, well in excess of the 50% threshold communicated by the FDA for vaccine approval. Higher effectiveness lowers the number of individuals required to be vaccinated in order to achieve 'herd immunity' - a situation where the average number of people infected by a carrier falls below 1, capping the spread of the disease. This should also serve as a boost to an individual's comfort in resuming normal activities when the appropriate time comes.

In terms of administering the vaccine, the initial priority is addressing the needs of the most vulnerable members of society as well as healthcare workers most exposed to the virus, with the intention of reducing pressure on the ability of hospitals to cope with the current volume of cases. Thereafter, attention will turn to progressively less vulnerable individuals with the goal of achieving a broad enough level of immunity to decisively dampen the continued spread of the virus.

All well and good, but this process will obviously take time. To emphasise the logistical challenges, the IATA estimates that to administer a single dose to all citizens globally would require 8,000 747 cargo aircrafts. Certainly anecdotal reports suggest mixed results in achieving initial vaccination targets. Hopefully this is a learning curve and we will see improvements, but in the meantime, lockdowns in some

shape or form remain a feature of life in most countries. The overall resilience of financial markets in the face of this residual uncertainty might seem a bit surprising, but the most likely scenario is that it is now a case of when, not if, things improve decisively. Another important factor is that we have seen how companies coped with the initial lockdowns in early 2020 - generally better than feared. As such, investors have some benchmark to set expectations against in contrast to the feeling of staring into the abyss in March 2020.

Assuming concrete progress towards reversing the spread of the virus in coming months, what courses of action are available for investors? One obvious place to look for opportunities is in companies that suffered in 2020 and offer the prospect of an outsized rebound as the environment approves. A caveat in this line of thinking is the amount of damage done to some companies' balance sheets. For example, share prices are markedly down for the airline industry, one which may take years to recover. More promising are companies in industries such as health-care and medical equipment which suffered from lower surgery volumes last year but are overall unscathed and poised to benefit from catch up procedures going forward. Likewise, many companies made significant operational progress in 2020, whether through restructuring their cost base or advancing their online presence, which will stand them in good stead in the future. A discerning approach is necessary to last year's strong market performers, as some of the benefits will no doubt dissipate, such as hoarding household supplies. At some stage down the road, attention will likely turn to how governments are going to manage the increased debt levels they have taken on to finance their emergency response packages. All this to say, it is a great time for optimism and opportunity while taking an informed approach by removing the emotionality of making investment decisions.

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