Origo Insights – A vaccine against the depression

The joint statement from Pfizer and BioNtech of successful phase three trials of vaccine against CoVid-1 has the potential to be the next game changing event in the SARS 2 CoViD-19 saga. We are nowhere near having the vaccine generally available. The immediate impact is that while CoVID-19 infections are still rising, we can already now look forward to an end to the epidemic and the economic downturn. The financial markets are already repositioning themselves.

On 9 November Pfizer and BioNtech announced they had a 90% success rate for a new CoVid-19 vaccine during the large-scale human testing phase. As further tests are required for authorisation and practical problems stand in the way of efficient distribution of the vaccine, the economic effects may be delayed.

Financial markets

The last time we pointed out a significant event in the financial markets was on 25 March 2020. The Japan State Pension Fund announced that it was ready to hold up to 31% of its assets in foreign government bonds. This completed the set of international agreements needed to save the "world as we know it". It also coincided with the end of the panic selling in the stock markets.

Since then the stock markets have rebounded on the back of monetary policies explicitly designed to keep the bond yields low despite the massive bond issuance. And of course, on the fact that the big tech companies have soared as our normal way of working and socialising fell apart.

We have already seen the first effects of the Pfizer/BioNtech announcement. There has been a general drop in risk premia visible in rising stock markets while bond yields have shown little reaction.

Since early September the stock markets have seen a pro-cyclical and reflation rotation away from stay-isolated-and-work-from-home.

Factor style favours small-cap and to some degree value. We prefer broad ETF exposure over individual stock selection. The macroeconomic background will improve, but we do not know how many companies have been kept afloat through extension of credits. We may still see a wave of defaults once the support ends.

We favour beaten down finance, energy, materials, travel (airlines, cruise lines) and leisure (hotel, restaurants etc.) sectors. We avoid deep defensive sectors such as utilities, health care and the overcrowded positioning in Pharma(biotech) and IT, and specifically the Netflix, Zoom etc.

More than ever, central banks have a strong interest in keeping the bond yields low to limit the negative effect on government finances of higher debt service. The latter is the real fight and it will continue for the coming years.

Fighting the virus

Understanding the interaction between virus, the economy and the financial markets is obviously quite a challenge. But at this moment in time, there is no way around trying.

We have on several occasions stated that there would be three steps in surviving the pandemic: mass testing, treatment of symptomatic infections while waiting for the essential creation of a vaccine to get the pandemic under control, i.e. obtaining an immunisation level sufficiently high that the virus cannot spread further, the so-called herd immunity.

But the virus has proven sneakier than we and many others expected.

We have learnt that in many cases, younger persons can fight off an infection through their normal immune defence mechanism. It means that antibodies are not created and cannot be traced later. Practically it means that we are unable to find out how many infections have happened.

That makes it nigh on impossible to estimate the level of infections needed to obtain herd immunity or if indeed such a thing even exists. The consensus is still that we need to get to an immunity around 70% of the population. But since people can be infected without gaining immunity, we have to rely on a vaccine.

In many countries contact tracing failed due to general civil resistance to providing personal data. International cooperation been hampered by politicians who mainly treat the pandemic as a local issue. It did not get any better as the USA decided to withdraw from WHO.

As for the drugs to treat infected persons, we have seen some success, both in the use of "monoclonal" plasma drugs, that if given early can decrease the strength of the onslaught. Some good old-fashioned steroids can help later in the "progress" of the disease.

In short, we have seen quite some progress in treatment, but we have not made enormous progress in getting the virus under control.

That is exactly why Pfizer's new results are encouraging and may well prove to be the turning point of the fight against CoViD-19.

In a bigger perspective, it is apparently major scientific progress that enabled the creation CoViD-19 vaccine. Instead of an expected a cocktail of already approved drugs, the new vaccine is based on genome sequencing (corona sequence published on 12 January 2020 by WHO) and messenger RNA (mRNA). This has accelerated the development of the vaccine significantly. It also gives hope to tackle future pandemics and maybe even the common flu.

The reported 90% positive after 7 days is indeed good. It is about as efficient as measles vaccine, and CoViD-19 is nowhere as contagious or deadly as measles.

More vaccine tests are needed

There is still quite a long way to go. The US FDA has in a lengthy statement from 30 October laid out the requirements for "Emergency Use Authorizations" (fast track), stating that they emergency approval will be granted only when the results of several controls are satisfactory. One is that the vaccine still has to be effective 28 days after the inoculation. Another is the test for side effects. Authorizations will only be given if the positive effects outweigh the possible negative side effects.

If the new vaccine clears these hurdles, the next phase is production and distribution: There are less than 30 producers in the world able to produce the vaccine on license, and many of them have already entered into contracts with local governments of delivering large amounts to their local health authorities.

Difficult distribution

Distribution to the places where the vaccine will be used is the next problem. Apparently, the vaccine apparently can only be stored at room temperature for 5 days before it goes off.

As with several other potential vaccine compounds, this product must be stored at very low temperatures, -94F/-70C in order for the vaccine to be stable. It means that the only way of distributing the new drug over longer distances is in metal containers with dry ice. It is no problem in the US, Europe, Japan and seemingly in China. However, the lack of cold storing facilities in other parts of the world can be a problem for the distribution.

Currently the world's producers of the special glass to withstand very low temperatures cannot produce more than about 875m vials per year. It is uncertain how quickly this capacity can be ramped up.

It means that the vaccine will be available first to countries close to production facilities and with efficient transport infrastructure. This will at least initially lead to a severe problem in terms of distribution. It seems reasonable to assume the vaccine will initially only be distributed to hospital staff treating CoVid-19 patients.

And do not be mistaken: Countries that can reasonably be called the "rich countries" will profit first.

All in all, Pfizers/BioNtechs vaccine will probably not be available for widespread distribution until second quarter of 2021, maybe even in the second half of the year. So, while the financial markets are positive, the recovery in the real economy will only come when we are free of lockdowns and social distancing. (The three central bankers 1, 2, 3)

A vaccine against depression

Right now, the role of the vaccine is that of being a vaccine against excessive gloominess.

Economic policies to fight the downturn were built on entirely unrealistic hopes that the pandemic would be over by the end of 2Q 2020. Since then it has become clear that an economic recovery could well end up being long and sluggish. Government budgets across the globe is already under heavy strain. The return of the virus as the autumn set in on the northern hemisphere severely increased the feeling of gloom everywhere but in the stock markets.

Pfizer and BioNtech's results and the likely filing for an "Emergency Use Authorization" proves that a vaccine will most likely be available in 2021. It gives the hope that the current CoVid-19 induced economic recession will eventually end.

The financial markets have got the message.

12 November 2020
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