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Our view on Vaccines, Viruses and a V-shaped recovery

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Ben Kumar talks through what the recent vaccine news means for markets and the 7IM portfolios.

Why is it we don't like Mondays? The Boomtown Rats might need to have a rewrite, given November 2020. For the second Monday in a row, we were greeted with preliminary results from a large clinical trial testing a coronavirus vaccine. The news was even more encouraging than last week's; Moderna, a US-based drug maker, announced that its vaccine was 94.5% effective, joining Pfizer as a front-runner in the global race to contain the pandemic.

I think it's important to grasp just how big a scientific and human achievement that is. In under twelve months, we've turned a medical problem into a logistical one. We're heading to a point where our response to COVID-19 is no longer about the science, but about mass production – which is something we're far more used to solving as a society. Chris Cowell digs deeper into the science overleaf – I want to focus on what the developments mean for markets and for our portfolios.

What's next?

Vaccine development will become old news quite quickly. Even this week, the market reaction was a lot more subdued – Moderna shares jumped, but the news didn't spark another global rally.

It's a bit like the moon landings. Pfizer's announcement is the Apollo 11 mission; Neil Armstrong, Buzz Aldrin and one small step. Both events created mass excitement because they were the first demonstration of the *general* principle; that we could get to the moon and that vaccination against COVID-19 is possible. Moderna's announcement is more like Apollo 12; still impressive, still positive, but not quite creating the same level of hysteria. Attention turns to the next steps – Mars, the solar system and beyond.

And similarly, with COVID-19, the market focus will now move to the next stage. The nuances of each particular vaccine may affect the share prices of the companies producing them, but from a global point of view, investors are already now more interested in the roll-out. How soon will vaccines be approved? How quickly can they be distributed? What strategies will governments use for deployment?

If the positive news keeps coming, there may well be a significant shift in the underlying drivers of equity market performance. We had a taste of that last week, as investors started to rotate out of their favoured 'safe' stocks of the past year, and into some of the more cyclical businesses which have suffered. Zoom shares fell 20%, while Rolls Royce shares rose by as much as 80%. Netflix lost 10%, while Carnival Cruise Lines rose by 20%. In general, the big technology companies struggled as investors turned to banks, materials and industrial stocks.

The 7IM portfolios were positioned for just such a burst of optimism, and specifically for the rotation away from the year's defensive winners. We've had an overweight allocation to equities since the middle of the summer, and have been tilting that equity allocation away from the tech-heavy US index towards the more cyclical regions and sectors.

We've been firm believers in the recovery happening more quickly than anticipated – the much-talked about V-shape. Our fundamental view has been based on the size of the economic stimulus, and the ability of human society to adjust and adapt to the virus and to lockdowns. A vaccine would be the icing on the cake, bringing about a normal state of affairs even more quickly than we anticipated.

The disruption and pain caused by COVID-19 will continue in the short term – and a diversified portfolio means that we'll be able to navigate any setbacks calmly. However, we can now see a clearer path to a world which comes roaring back to life next year, and the year after that. That's the world we have already positioned the portfolios for and the recent change in the news is starting to support our view.

Chris Cowell then gives us some insight into the most commonly asked questions about the vaccines.

What did the scientists find out?
Both vaccines show much higher than expected efficiency, with success rates above 90%. To get a sense of how good these results are, it's worth considering vaccines that people regularly receive. On the low end, flu vaccines are between 40% and 60% effective, at best. By contrast, the measles vaccine is 97% effective.

The Food and Drug Administration had set a bar of 50% efficacy for emergency authorisation. If the preliminary results bear out then both vaccines are far more protective than required and authorisation should be given – as long as no safety concerns are raised.

Are these new vaccines safe?
Both Pfizer and Moderna vaccines are based on similar ground-breaking technology which injects genetic instructions into the body that tells human cells to make viral proteins, which prime our immune systems to fight the invading pathogen. While conventional vaccines administer an inactivated virus, or 'immunogenic' bits of the virus, to provoke an immune response, these new vaccines deliver genetic material known as messenger RNA directly into our cells via microscopic oily droplets that fuse with the cell surface.

The benefit of this methodology is that compared to conventional vaccines, these droplets are very unlikely to be harmful and the interim results back this up. While Pfizer's press release failed to go into significant detail on safety, other than that they expect to reach the required safety data by the end of November, Moderna showed that the vaccine caused some mild symptoms such as fatigue, muscle pain and headaches in 10% of participants, as we would expect. So 10% of people will be hauled up in bed for a day or so with flu-like symptoms, but that should be as bad as it gets (based on these results so far).

What are the differences between the two vaccines?
Crucially, the Moderna vaccine is much easier to store and transport than Pfizer's, which needs to be stored at temperatures below -70°C. Although Moderna uses similar technology, they expect the vaccine to remain stable for 30 days in the fridge, while it will remain effective for 6 months when stored in a domestic freezer (-20°C). Compared to the sub-Antarctic conditions required for the Pfizer vaccine, Moderna's requirements are very similar to how a lot of medicine (and food) is already distributed and stored, so our infrastructure is prepared for this.

So there are differences in shipping and storage, but what else? There are various other criteria that vaccines will be judged against, including their effect on the severity of disease when it does occur and the duration of immunity they provide. Moderna have shown that their vaccine is effective against severe cases, while Pfizer has not made that data available. And the duration of immunity? This can only be determined once the trial has finished and the strength of the immune response to the vaccine can be measured. Without this data, it really is a little too early to start predicting how big an impact these vaccines will have.

So what's next?
Make no mistake, the vaccine news is good news. Coronavirus vaccines do work! The nightmare scenario where this disease could not be vaccinated against is now disposed of. Effective ones are coming. There may be differences in terms of the level of immunity they provide, their safety and efficacy across different sub-groups, but we can now see the light at the end of the tunnel.