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BlackRock

Vaccines and variants: Plotting the path to stock market success

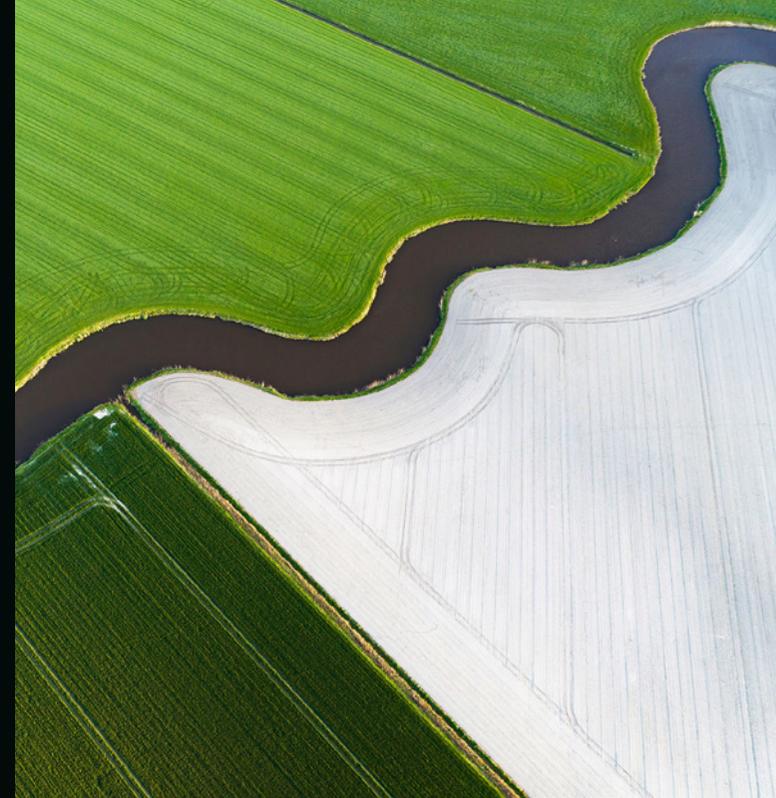
New variants are stoking COVID-19 angst, but we see vaccination programs prompting a global growth surge

Many see the achievement of COVID-19 herd immunity as the lynchpin for economic and market recoveries. Data scientists and healthcare analysts from BlackRock Fundamental Equities are tirelessly tracking the trends in infections and vaccinations around the world to form a view for the road ahead.

Will there be herd immunity from COVID-19... and does it matter?

Vaccine development has been a resounding success. Efficacy levels above 90% surprised markets when data was released in November. The key limitation is speed of rollout. Israel is leading the way, the UK and the U.S. have made reasonable progress, and Europe has been hindered by production setbacks. So when will we see the end of COVID-19?

The immediate purpose of vaccination programs is to lessen the severity of the disease and relieve the stress on public health systems. When this happens, governments may consider lifting lockdown measures. Absolute herd immunity – the kind we see with diseases such as the measles – will be difficult to achieve this year. This is because the disease is so infectious, the level of global immunity remains low and large chunks of the population won't be vaccinated – children, and those who decline to have the jab. For herd immunity to happen, around 90% of the population would have to be immune, and that's unlikely in the near term.



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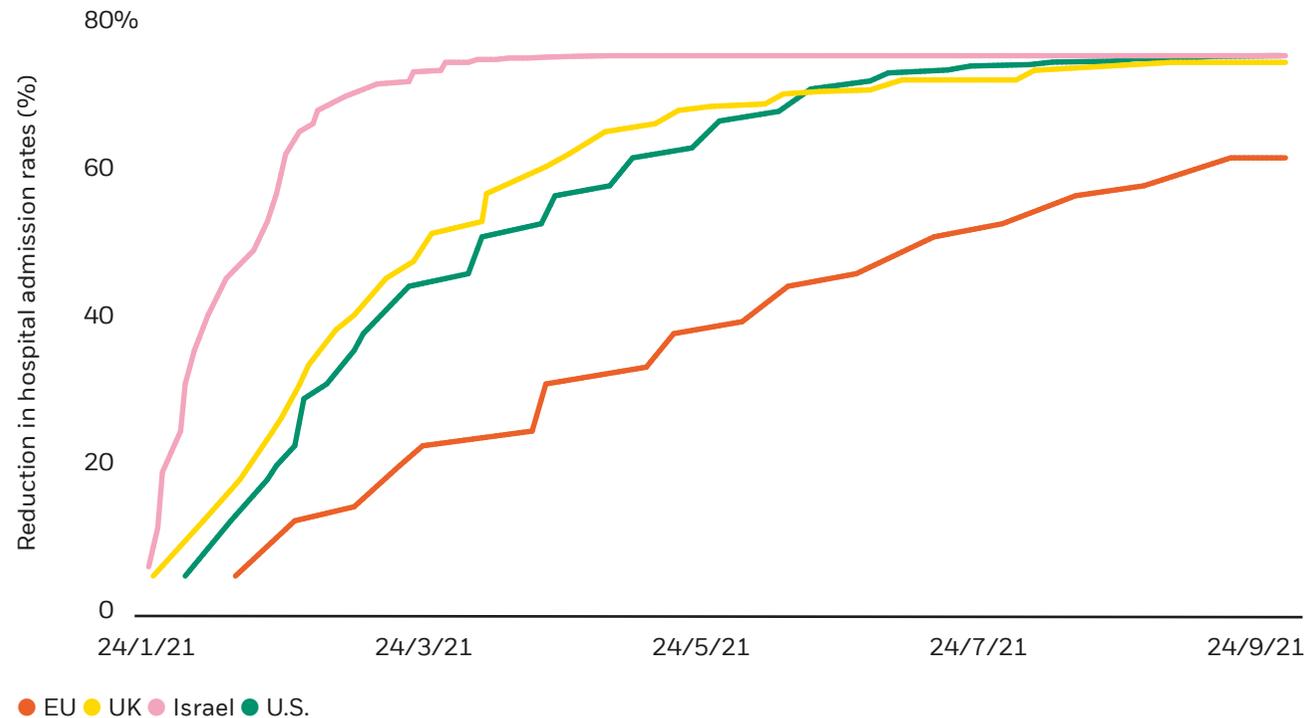
When to expect relief

The impact of vaccinations starts to filter through to the COVID-19 data within roughly a month – this is the time it takes for the differences between those who have been vaccinated and those who haven't start to show up. Data from Israel confirm this. See the box below.

Ongoing vaccine rollouts – combined with localized lockdown measures – means the data could improve enough for restrictions to be lifted in the UK around April (see the chart below), and slightly later in Europe given the problems there with vaccine production. The U.S. is somewhere between the two and varies by state. At the beginning of January, only around 35% of vaccines distributed in the U.S. had gone into arms. This is now 50% and we see this improving further as rollout continues.

Easing the strain

Estimated reduction in global hospital admission rates given vaccine rollout



Source: BlackRock Fundamental Equities, Feb. 2021. Notes: The chart shows the estimated drop-off in hospitalization rates as countries roll out vaccination programs. Our analysis is based on official information about vaccine programs, availability of vaccine supplies, efficacy of vaccines, an estimated vaccine take-up rate of 80% and a five week lag between vaccination and reduction in hospitalization. This is for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

Vaccination milestones: 20-30-50

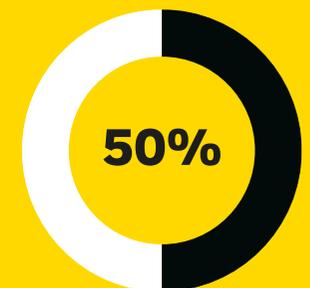
Based on our analysis, we expect mortality rates to come down once 20% of populations – the most vulnerable – have been vaccinated.



The number of intensive-care patients in hospitals should drop once about 30% of people have been vaccinated.



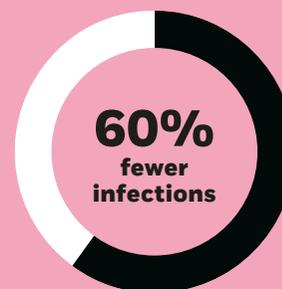
It may require 50% of the adult population to be inoculated before the pressure on hospitals can fall significantly.



This is the current state of play, but with potential for more upside than downside. Approval of the Johnson & Johnson and/or Novavax vaccines would provide enough total supply for coverage of the developed markets by the end of 2021 and could be a game changer. In particular, the Johnson & Johnson vaccine is administered in a single shot and would rapidly speed up immunization efforts – and trial data shows it has 85% effectiveness against severe disease. Distribution could potentially begin in the middle of this month.

All eyes on Israel

Data from Israel is encouraging. Three weeks after 10% of the population was vaccinated, there were 60% fewer infections among the vaccinated cohort versus the population as a whole, according to a study of 50,000 people in Maccabi. And for the first time, there was a decrease in the number of hospital admissions for those aged over 60, with numbers still rising for younger people yet to be vaccinated.



Should we be worried about the virus variants?

Viruses mutate to survive, so there is nothing unusual about the emergence of new variants – and we should expect more to pop up. Recent clinical data confirms our view that the vaccines will still be effective against the new virus variants – yet to a slightly lesser extent. And they still look to be highly effective against severe disease and hospitalisations, which remains the most important metric for reducing lockdowns, in our view. For example, a trial shows that the Novavax vaccine is only 10% less effective versus the UK strain from a high starting point of 95%, and 60% effective versus the South Africa strain – still effective enough to provide immunity. The J&J single dose vaccine showed 85% effectiveness against severe disease. These numbers are highly encouraging.

It is vital to keep an eye on variants and their potential ability to wriggle out of the clutches of vaccines. If new vaccines are needed, then this can be done quickly. Moderna said it can create and ship a new vaccine in 42 days, and Novavax will start a trial in the second quarter with a new variant. All of this gives us confidence that vaccination programs will continue to do the hard work of combatting the virus and facilitating economic and market recoveries this year – while pharmaceutical companies continue to improve vaccines behind the scenes.

What might this mean for equity markets? Party like it's 2005

We expect an economic boom after COVID-19 restrictions are lifted. There is a huge amount of money sitting in people's bank accounts ready to be spent, and fiscal stimulus efforts in Europe and the U.S. should also bolster consumer spending. We could see the sort of global, synchronized growth rates last experienced in 2005. This means that sectors and regions that have been underperforming since the global financial crisis could now take off – and some sectors that have enjoyed a stellar run may begin to underperform. This is a fantastic environment for stock pickers.

“We’ve always said vaccine rollouts would be difficult and political – and they have been.”

– Sarah Thomas, Head of Healthcare and Co-Head of Research for European Equities

Picking the winners

A robust macro environment will benefit companies that can rapidly speed up production to meet surging demand, and have the ability to raise prices as supply remains limited. **Mining** companies are a good example. Demand won't just be coming from China – it will be global. Other sectors well placed to increase both prices and supply are **industrials, materials, chemicals and semi-conductors** – where supply is limited and demand from many industries, including electric vehicles and electronics, very strong.

We believe consumer spending is set to soar this year and throughout 2022 as government restrictions are lifted and unemployment rates fall. People are desperate to go on holiday and eat and drink out in the company of friends. **Restaurants** should come out of the pandemic with improving margins and revenue. We also like the **luxury** companies that will benefit from travel – building on a solid performance throughout the pandemic. Cognac supplies are running low in some parts of the world, Ferraris are zooming off the assembly line and demand for Cartier jewellery added some sparkle to Richemont's results at the end of 2020.

Areas of caution

Not all growth companies – companies that grew in an environment of low global growth over the past decade – will keep delivering for investors. There is not necessarily anything fundamentally wrong with these companies, but earnings expectations are very high – reflected in lofty valuations in certain areas of the U.S. tech sector. These companies may struggle as investors spy returns in previously under-owned sectors and parts of the world.

Of course, this is all reliant on the global vaccine program being a success – and our base case remains that it will be.

Summing up the supply

Company	Vaccine type	Phase	Production capacity in 2021
BioNTech/Pfizer	mRNA	Approved	2bn
Moderna	mRNA	Approved	1bn
Oxford/AstraZeneca	Non-replicating viral vector	Approved (awaiting U.S.)	3bn
J&J	Non-replicating viral vector	Phase III	1bn
Novavax	Adjuvant protein sub-unit	Phase III	2bn

Source: BlackRock Fundamental Equities, respective companies, Feb. 2021.

Fundamental Equities

Expert
insight

People	Profound curiosity, deep conviction
Purpose	Active edge, sustainable outcomes
Perspective	Astute, diverse, panoramic
Performance	Long-term lens, risk-aware results

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Lit No. COVID-VAC-0221 216429T-0221