

Following Recent Good News on the Vaccine, There Are the Facts, Perspective, and Still More Uncertainty

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Monday's Pfizer and BioNTech press release showed extremely positive news about the probable efficacy of a coronavirus vaccine. The market action was substantial, with markets discounting stronger growth, lower risk premiums, higher inflation, and a large rally in equities that have been hurt most by the pandemic and a sell-off in those that have benefited from it.

In today's research, we go through the facts about the Pfizer/BioNTech vaccine announcement and provide a more in-depth conversation in a podcast with Richard Falkenrath and Kiran Rao. Richard is a former senior White House official who was at the center of the response to the SARS outbreak, and Kiran has previously done significant epidemiology work with the Bill & Melinda Gates Foundation and the World Health Organization. Following our discussion of the announcement, we go through yesterday's market action.

Our Perspectives on the Positive Developments on the Vaccine Front

What do we know?

Pfizer and BioNTech announced 90% efficacy in their first interim results from the Phase 3 study of their COVID vaccine. They are undertaking a randomized study, with 39,000 people so far who have received either the full vaccine or a placebo. Of that total group, 94 people have been infected—with no more than 10% of them in the group that received the vaccine, while the other 90% were in the placebo group. In other words, the people that got the vaccine instead of the placebo were about nine times less likely to get the disease. This result was reached 28 days after the first of two doses had been administered. The vaccine is based on a messenger RNA platform, which is an entirely novel technology in which genetic material from the virus is used to stimulate the body's immune system. Pfizer/BioNTech's candidate is one of several that use this platform—Moderna is the other leading contender in this category.

Monday's news places Pfizer/BioNTech's candidate on the higher end of anyone's expected efficacy outcomes, as most experts expected initial candidates to be closer to 50-70% efficacious. It remains to be seen whether this level of efficacy will sustain as the trial progresses.

What should we be careful about?

Scientists have cautioned against overexcitement at interim findings before long-term safety and efficacy data have been collected. Specifically, we currently have no data on the demographic makeup of participants (e.g., their age, race, or comorbidities). Moreover, additional time needs to pass before we have convincing data on vaccine safety. Finally, we don't know the duration of vaccine-linked immunity and its impact on spread.

There also are challenges linked to how many people will take the vaccine. This vaccine needs ultra-cold storage (-94°F), and two shots must be administered three weeks apart, leading to meaningful logistical challenges. Moreover, there is some evidence to suggest that the general public will be hesitant about getting vaccinated until they are convinced of the vaccine's safety.

Pfizer and BioNTech's success may also reduce the chances of other companies developing successful vaccines, as it could introduce challenges for other companies in recruiting volunteers for their trials.

The Market Moves Following the Vaccine News Were Relatively Big and Reflected a Reduced Negative Impact from the Pandemic

In nearly every asset class, the markets hit the hardest by the pandemic-related downturn rallied the most.

Global Market Action Scan						
Big move up in bond yields on a day where equities were up, reflecting strong growth market action	Developed World 10yr Bond Yields			Global Equities		
		9-Nov	YTD		9-Nov	YTD
	Australia	0.14%	-0.61%	Developed World		
	United States	0.14%	-1.11%	Euroland	6.4%	-15.4%
	Canada	0.12%	-1.06%	Norway	5.3%	-16.5%
	Euroland	0.12%	-0.43%	Australia	4.7%	-6.3%
	New Zealand	0.11%	-1.07%	United Kingdom	4.7%	-22.7%
	United Kingdom	0.10%	-0.55%	Japan	4.1%	-2.9%
	Norway	0.09%	-0.85%	Sweden	3.8%	2.8%
	Switzerland	0.07%	-0.03%	United States	2.5%	8.8%
Sweden	0.06%	-0.23%	New Zealand	1.8%	5.4%	
Japan	0.00%	0.04%	Canada	1.5%	-4.6%	
			Switzerland	0.9%	-2.4%	
For the most part, emerging market bonds rallied; Turkey's move was idiosyncratic	Emerging Market 5yr Bond Yields			Emerging World		
		9-Nov	YTD		9-Nov	YTD
	Turkey	-1.02%	2.31%	India	3.5%	1.5%
	Malaysia	-0.09%	-0.67%	Brazil	3.3%	-13.6%
	Brazil	-0.07%	0.41%	Mexico	2.9%	-11.8%
	Russia	-0.04%	-0.89%	Korea	0.0%	10.0%
	Thailand	-0.01%	-0.54%	China H-Shares	-0.3%	-10.3%
	Mexico	0.00%	-0.89%			
	Korea	0.01%	-0.12%	Currencies vs USD		
	India	0.02%	-0.85%		9-Nov	YTD
Pro-growth commodities like oil rallied, while gold (more driven by liquidity and risk sentiment) sold off	Commodities			Developed World		
		9-Nov	YTD	Japan	-1.9%	3.1%
	Oil	7.81%	-43.4%	Switzerland	-1.4%	6.0%
	Gold	-4.41%	26.9%	Canada	0.5%	0.0%
				Australia	0.5%	4.0%
				Euroland	-0.4%	5.5%
				United Kingdom	0.1%	-0.6%
	Sovereign Spreads			Emerging World		
		9-Nov	YTD	Turkey	5.5%	-26.4%
	Italy	-0.05%	-0.06%	Mexico	1.6%	-6.8%
Spain	-0.02%	0.15%	Korea	0.4%	3.4%	
Turkey	-0.65%	2.42%	Brazil	-0.3%	-25.3%	
Brazil	-0.20%	0.90%	China	-0.3%	5.0%	
Mexico	-0.16%	0.26%				
India	-0.04%	0.13%				

Equities Rallied in Aggregate, with Sectors Hit the Hardest by the Virus Rallying the Most

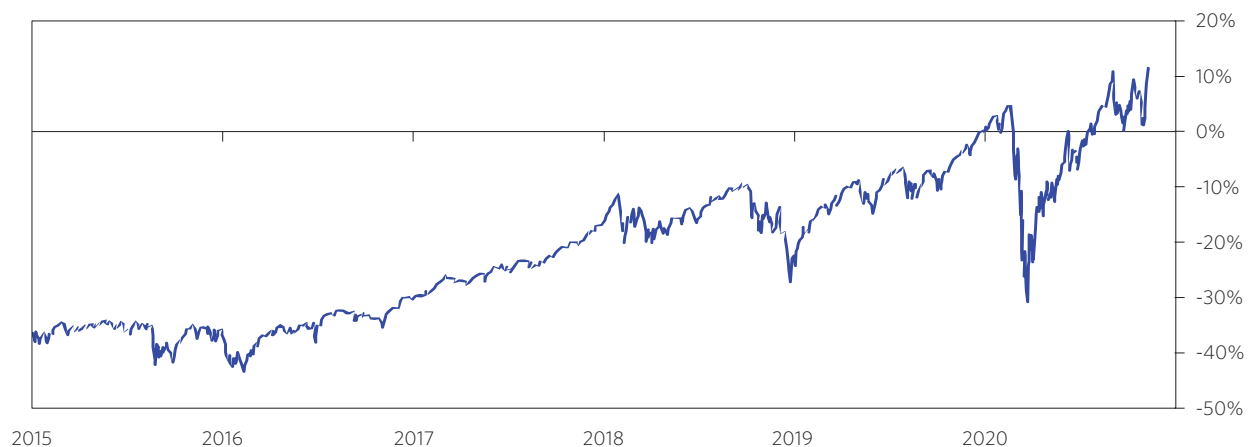
The US equity market rallied in aggregate, as investors discounted stronger growth expectations and risk sentiment improved. Under the hood, there was interesting sectoral dispersion reflecting the uneven impact that the virus has had on different sectors. Sectors such as energy and financials, whose earnings and stock prices were hit the hardest by the crisis, meaningfully outperformed the overall stock market yesterday, while sectors such as consumer discretionary and tech, which have benefited from shifting demand patterns since the outbreak, actually fell.

USA Equity Sectors Returns

	9-Nov	YTD
Energy	14.2%	-45.3%
Financials	8.2%	-12.4%
Industrials	3.3%	3.3%
Real Estate	2.6%	-5.8%
Materials	2.3%	13.2%
Utilities	1.8%	1.0%
Healthcare	0.7%	8.7%
Communication Services	-0.3%	16.1%
Consumer Staples	-0.5%	2.9%
Information Technology	-0.7%	31.7%
Consumer Discretionary	-1.6%	25.6%

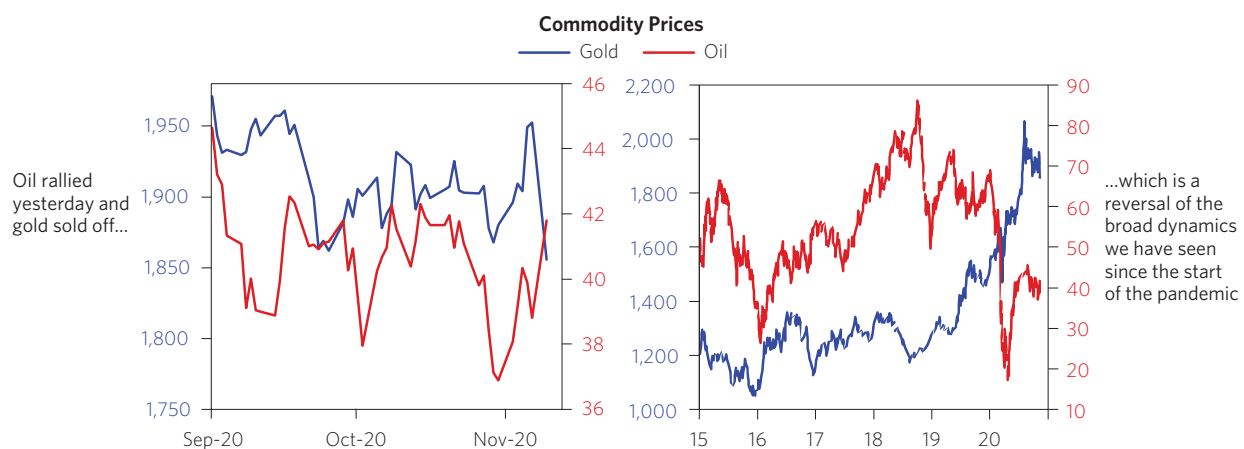
Below is a bit of a longer perspective on where US equities prices are. Equities had already erased all of the COVID-related sell-off, and yesterday's rally brought prices more than 10% above January levels.

USA Equities Price (Indexed to Jan 2020)



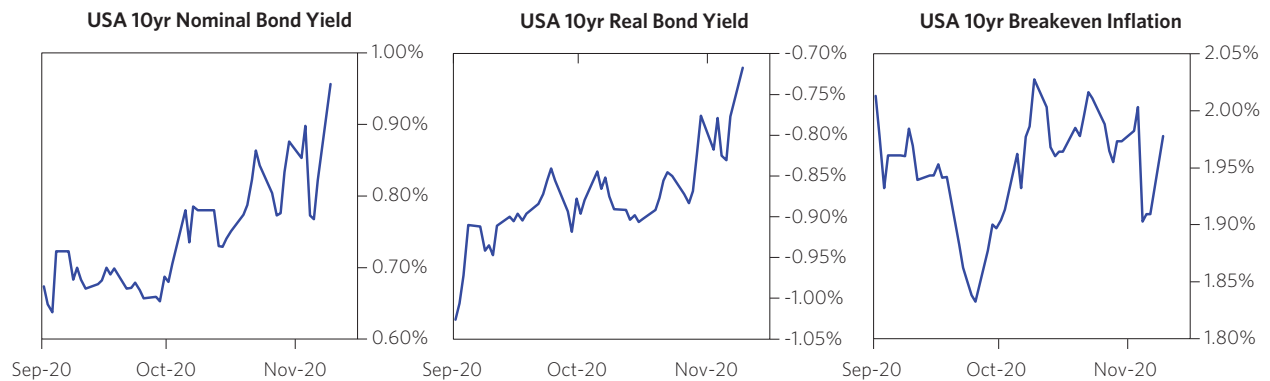
The Market Action in Commodities Is Reflective of a Growth versus Liquidity Dynamic

The COVID crisis has had an uneven impact on commodity markets, with commodities that are more driven by changes in liquidity and discount rates (e.g., precious metals) performing well and those that are more sensitive to global growth—particularly energy—underperforming. Yesterday, we saw a reversal in that dynamic, as growth-sensitive commodities like oil rallied, while precious metals like gold and silver sold off.

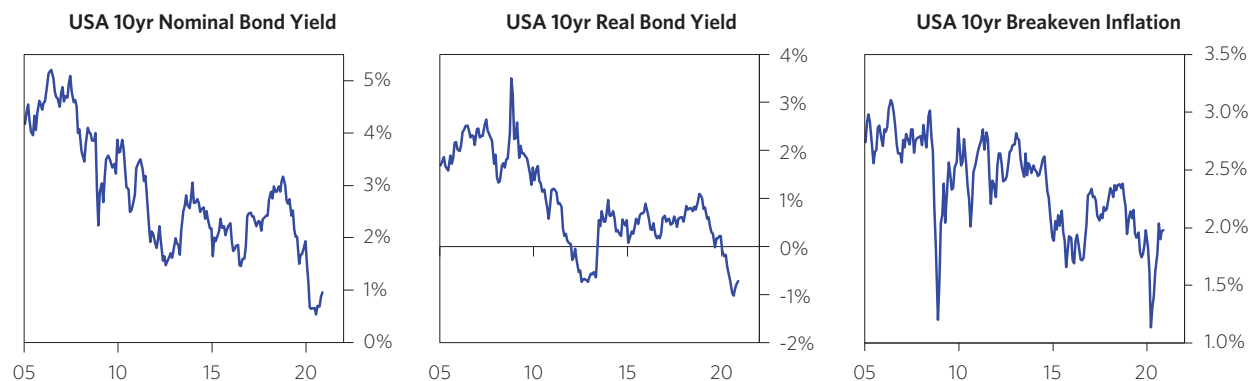


Bond Yields Rose, as Both Inflation Expectations and Real Yields Moved Higher

The rally in risk assets also led to a meaningful sell-off in bond yields in most developed world countries. Below, we show US yields as an illustrative example...



...yet it is important to note that nominal yields remain well below pre-crisis levels. Under the hood, while breakeven inflation has retraced almost all of the crisis-related decline, real yields remain well below January levels.



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