

Hope is rising

2020 has been tough. When we think back to the start of the year, who would have predicted that the assassination of Iranian Major General Qasem Solemani would be one of the least dramatic things to have happened this year. The Coronavirus pandemic that swept the Western world from February onwards has been devastating, leading to not only high mortality rates across the globe, but also significant economic damage. But fast-moving news has been accompanied by faster moving reactions.

A collective human endeavour and fighting spirit has been at work. The prior record for the fastest time to develop a vaccine was 4 years. Yet, around 11 months since news started to emerge about a new virus in China, we have found not one but multiple vaccines to prevent this disease. In fact, as I write this article, the first patients are beginning to be vaccinated here in the UK.

Pfizer/BioNTech were the first to announce positive results from Phase 3 trials in November, with the vaccine found to be over 90% effective, far exceeding the threshold required by regulators. Days later, Moderna followed, announcing that its vaccine was over 94% effective after going from lab development to human trials in a record-setting 63 days. Both Pfizer/BioNTech and Moderna are mRNA vaccines and will be the first licensed for human use. Vaccines aim to take advantage of the natural immune response of the body by priming it to recognise a certain virus. The traditional method does this by introducing inactive or weakened virus cells or proteins into the body to trigger antibody production. Those antibodies are then present and able to respond to future infections.

Messenger RNA (mRNA) is genetic material which contains the instructions for making proteins. The mRNA enters the cell and causes it to start producing the proteins which coat the surface of the coronavirus. These proteins are harmless on their own, but antibodies use them to identify viruses. Immune cells then perceive the proteins being produced, which starts the process of the production of antibodies. Unfortunately, there are downsides to this type of vaccine: mRNA can aggravate immune cells and result in adverse reactions. In addition, both vaccines must be stored at extremely low temperatures for transportation (-70°C for Pfizer/BioNTech). Once it arrives at a centre for distribution, the vaccine can be stored in a regular medical refrigerator for only 5 days. These factors obviously result in substantial logistical challenges in distributing and administering the vaccine, but another prohibitive factor is the cost, at between \$39 and \$50 per patient. Perhaps not a problem for developed markets, but more of a challenge for emerging markets.

Shortly after the Pfizer/BioNTech and Moderna news, the results of the phase 3 trials for the Oxford/AstraZeneca vaccine were announced with an average of 70% efficacy across the dosing regimens. Even this result is substantially above the threshold for approval and the efficacy of some other vaccines. However, further analysis revealed that when patients were given a half dose first followed by a full dose, efficacy rose to 90%. The vaccine works in a similar way to the mRNA vaccines but uses a genetically altered adenovirus to deliver the instructions to the cells for the production of the proteins. The adenovirus is a milder virus with symptoms like a common cold which has been manipulated so that it cannot reproduce in the body. This technique had previously been used to develop candidate vaccines for Zika, MERS and flu. Not only is this vaccine being sold for a substantially lower price, (\$3-\$4 per dose) but it can also be stored long term at 2-8°C which is the temperature of normal refrigerator.

Even more promisingly, there are several other candidate vaccines which are either in trials or have been approved for use by other nations. These include the Russian developed Sputnik V as well as the Johnson and Johnson vaccine which uses the same technique as the Oxford/AstraZeneca product. There are also Chinese and Indian developed vaccines which use the traditional method of an inactivated virus. Moderna have stated that they will not enforce patents on their technology used to develop the vaccine, increasing the likelihood that other companies will be able to copy the technique and produce their own version.

The stock market reaction to the vaccine news has been very positive, as one would expect. November returns were some of the best seen on record across a host of global indices. Finally, the sectors that had the most torrid year including leisure, travel, energy, property and financials, significantly outperformed. As expected, the “stay-at-home” favourites had a slightly more muted response. In a similar vein, Value outperformed Growth in November. The rotation trade out of some of the better performing growth / momentum stocks into value showed signs of picking up steam.

We have spoken before about portfolio positioning and how one needs to have a balanced yet diversified portfolio of stocks to capture market moves. November proved this theory right, as some of our portfolio stocks like Crown Resorts, Disney, Madison Square Gardens, Wells Fargo, BP, and others significantly outperformed.

While we are all celebrating, one needs to remain sober to the challenge that remains ahead of us. Although we now have an array of vaccines approved, getting the world vaccinated is a complex and time-consuming process. Manufacturing, logistics, and persuading large populations to take the vaccine, all present their own challenges.

Cases and deaths are still climbing and the threat of further lockdowns looms. With this in the forefront of people’s minds, it would be expected that short of further government stimulus, markets are likely to remain volatile over the coming months. It all just depends on how forward-looking investors are prepared to be.

It is however undeniable that the vaccine news is hugely positive for everyone: people who have been required to self-isolate for months, small business owners struggling to cope with repeated lockdowns, students and children whose education has been severely disrupted, as well as those larger companies who employ so many. Vaccines are clearly critical for a return to “normal” living and a full economic recovery. Despite the challenges, hope is rising for 2021. We may not yet be out of the woods, but we can certainly see the pathway starting to emerge.

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