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Market Update: 12th November 2020

Markets surged this week as Pfizer & BioNTech announced impressive vaccine results in its phase 3 trial. Achieving an efficacy rate of 90%, the vaccine candidate could be the first to receive widespread approval among developed nations. The news is well timed, with France and Italy recently recording their highest daily coronavirus death tolls since April, alongside news that Paris has exhausted its ICU capacity such that 93.6% of intensive-care beds across France are now occupied by Covid-19 patients. The increasing case count is in line with the majority of developed nations. The importance of an effective vaccine has been reflected in financial markets this week, with risk assets posting significant gains. Thanks to the arrival of positive vaccination news, attention has begun to focus on the administration of the vaccine and a projected timeline for the return to normality.

Pfizer's Vaccine Update

In its first interim efficacy analysis, the vaccine candidate was found to be more than 90% effective in preventing Covid-19 in participants. In a study enrolling 43,538 participants, 42% are said to have diverse backgrounds and there have not been any serious safety concerns observed. This means that protection is achieved 7 days after the second vaccine dose and 28 days after the initiation of the first dose. Although the data released is not conclusive evidence that the vaccine is safe and effective, the findings will soon be validated by regulatory bodies, including the likes of the FDA in the US. For months, researchers cautioned that a vaccine might only be 60 to 70% effective, which has subsequently improved the outlook for the economic recovery.

As an interim update, Pfizer is still required to continue its phase 3 trial until it has reached the threshold which grants the vaccine regulatory approval. Having evaluated 94 confirmed cases of Covid-19 in its phase 3 trial participants, Pfizer and BioNTech must continue to collect data until 164 confirmed Covid-19 cases have accrued. Although it is difficult to identify how long it will take the pharmaceutical giant to reach this threshold, the growing second wave of Covid-19 cases worldwide could mean Pfizer reaches this threshold sooner.

If the phase 3 trial is deemed a success, Pfizer and BioNTech have suggested a number of vaccinations will be rolled out by the end of 2020. Based on existing manufacturing capabilities, 50 million vaccines are likely to be produced by 2020-end, with the UK's existing 40 million dose pre-order entitling the nation to 10 million vaccines by the end of the year. As such, this provides the complete vaccination course for 5 million individuals, a fraction of the population currently classified as 'highly vulnerable'.

Financial Market Reactions

Financial markets had already been boosted by the presidential election clarity when Pfizer's interim vaccine results were announced. Despite the efficacy release being an interim result, investors saw an opportunity to reallocate their portfolios. If an effective vaccine begins its roll out by the end of the year, parts of the population can be vaccinated, reducing the ability of the coronavirus to transmit between people. With a large enough proportion of the population vaccinated, this makes it less likely

that we will continue to see restrictions on the movement of people in 2021, enabling businesses to remain open and economic activity to recover. As a result, greater economic activity will be expected to increase employment and support household disposable incomes, reduce the reliability on the state to support the heightened welfare needs and improve the UK's economic growth prospects. Over the week, financial markets saw an opportunity to benefit from the growth prospects of firms which are going to benefit most over the next couple of years, with a clear value trend emerging over the week.

The news sent Pfizer's share price 15% higher in the trading day due to the promising outlook for the firm going forward. Alongside this, the MSCI all-country index also achieved its record high. Some of the worst performing industries in terms of year to date returns experienced sharp rebounds, including the aviation industry. On the day of the news release, Rolls Royce returned 43% for investors, whilst British Airways owner IAG returned 33%. As a result, 7 firms in the Travel, leisure and Aerospace & defence sectors helped drive a c.4.7% return in the FTSE 100 on Monday, adding more than £70 billion to the value of the index, its highest closing price since 12 August. Additionally, value stocks have performed the best so far this week due to their discounted share prices and improving outlook, which has helped the Schroder Global Recovery fund held in our higher risk portfolios return 8.5% Monday to Wednesday this week. Consequently, those firms and sectors that have been significantly damaged due to the global pandemic will be expected to be the outsized beneficiaries as a vaccine rollout approaches.

Vaccination Challenges

Despite the positive news release and the initial financial market reactions, it's important to remember there are still a number of challenges Pfizer and BioNTech face between successfully receiving regulatory approval to inoculating individuals.

The first issue is the storage requirements. This vaccine, using mRNA molecules, requires -70 degrees Celsius conditions in both distribution and storage, where it must then be thawed and injected within five days. Improper conditions will waste the vaccine, of which already has an inflexible manufacturing capacity in the short term. That means that countries will need to build from scratch the deep-freeze production, storage and transportation networks needed for the vaccine to survive. The massive investment and coordination required all but ensures that only rich nations are guaranteed access -- and even then, perhaps only their urban populations. The challenge and expense when deploying this vaccine has caused concern that rich regions, like the US, UK, and Europe, will get this vaccine first, leaving many developing nations in turmoil until much later. That being said, the WHO is aiming to combat this by raising \$18 billion to purchase vaccines for poorer countries. Albeit, even with vaccination orders, developing nations will struggle to provide the appropriate storage conditions to provide the vaccine nationwide.

Additionally, even if the likes of the UK are to get this vaccine first, the logistical challenges are still significant. Areas where individuals are not easily contactable or have to travel long distances to reach vaccination centres are an issue. The operation will need to be seamless with the public consistently making their appointment on time as, when stored in a dry ice case at GP practices and vaccination centres, this case can only be opened for a minute at a time and no more than twice a day when taking the vaccines out to administer them. This narrows the margin for error further and highlights the extensive training requirements health professionals will require.

Inoculation Priority

Although the above issues have focused on the difficulty in getting the vaccine to individuals, national governments are also facing the challenge of determining who is best to give the vaccine to first. Due

to the significant global demand for a wide number of vaccine candidates, the UK has an order of 40 million Pfizer and 100 million AstraZeneca vaccines in line, inoculating 20 million and 50 million Britons, respectively. As a result, decisions have to be made on who will receive the doses by the end of 2021. Last month, the UK published its vaccination strategy with several tiers of prioritisation, starting with getting the vaccine to the very old and to those working in care homes before moving down the age bracket. Prioritizing the most vulnerable members of society is a common approach. Germany's strategy is to vaccinate at-risk groups first, along with nurses and doctors. An estimated 40% of the population gets first dibs on a vaccine under the German plan. That being said, in the phase 3 trials so far, there has not been a proportionate age distribution which reflects the nations age distribution. As such, older age groups have less data points on the vaccine's efficacy, meaning there is greater uncertainty for the true effects on the elderly.

Alternatively, a recently published model from three academics at Khalifa University suggests priority should be accorded to groups with the highest number of daily in-person interactions, since that amplifies the vaccine's effectiveness by reducing infections (and mortality) both among the vaccinated group and those they come into contact with. Following this logic, children will likely be prioritised also due to their frequent interactions daily.

The recent update has therefore brought good vaccine news; however the next steps must be carefully planned, and the respective governments will be expected to justify their inoculation priorities.

Our view

The vaccination news over the week has reduced uncertainty in the medium term somewhat, and its positive effects are clearly reflected in the performance of risk assets over the week. Although large initial increases were witnessed in global equities, some of these equities contracted slightly in subsequent days, perhaps due to profit taking but also as a result of the improved understanding of the challenges ahead for Pfizer and BioNTech. The deep freeze requirement of mRNA-based vaccines means that administering this vaccine will be challenging in the likes of the UK, and near impossible in developing nations, which limits its impact in eradicating the coronavirus. It should be remembered however that there are other promising vaccines to come, including AstraZeneca's, which is also considered a frontrunner in the vaccine race. We can expect these results by the year-end. If promising, AstraZeneca's vector-based adenovirus which needs to be refrigerated between two and eight degrees could prove to be an easier option for rollout. Lastly, despite the distribution challenges, simply having an effective vaccine in circulation will improve the outlook for financial markets, and our portfolios are well positioned in the sectors which are expected to benefit most from an improved health outlook and subsequent economic rebound.

Important Information

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