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Vaccine breakthrough could remove major uncertainty

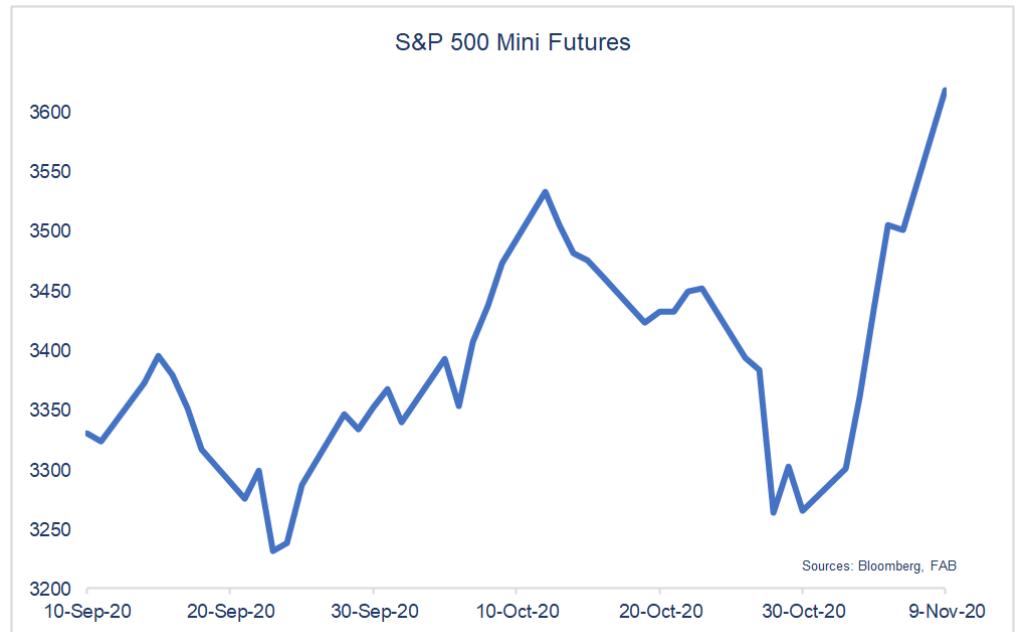
◆ Pfizer says that preliminary results of its late-stage trials for a Covid-19 vaccine had a 90% efficacy.

◆ Company executives suggest they could apply for emergency use of the vaccine within as little as a month and start producing and distributing the shot in scale by year-end.

◆ S&P futures jumped as much as 3.8% before the US open following the news.

◆ Shares of cyclical and small-cap companies led the gains.

◆ The FAB AAC remains marginally underweight in stocks and overweight in EM and IG bonds.



With the uncertainty about the political landscape in the US fading, investors have been hoping for some respite from the coronavirus as well. That happened today, as Pfizer and BioNTech said that preliminary results of a late stage trial for their coronavirus vaccine yielded results that suggested the shot is 90% effective.

The company still has a few hurdles to overcome, but the results suggest that, barring anything unexpected, it could seek emergency use approval from the US Food and Drug Administration within a month. If granted, the company could start mass-producing and distributing the vaccine as early as December.

Another company in the late stages of vaccine trials, AstraZeneca (which is developing its own version of the vaccine with the University of Oxford), also said this weekend that it expects results of its late-stage trials before year-end. Moderna has also announced a similar timeline.

Pfizer still needs to wait for a few weeks to ensure that at least 164 of the 43,538 volunteers that participated in the stage-three trial of the vaccine contract the virus. So far, only 94 of the people in the study had been infected, leaving scientists short of what regulators require for statistical significance and safety. The company said it expects to have the number of cases it needs in the next two weeks.

The company also needs to have waited two months since the participants who were given the vaccine (instead of a placebo) took it to assess whether the jab has any side-effects. That timeline should be completed within a couple of weeks, according to news reports.

Assuming no one reports major side-effects, Pfizer could make the vaccine widely available next month. As investors cheered the news, The S&P 500 futures rose as much as 3.8% today, though they were paring gains at the time of writing.

S&P 500 futures suggested the index was about to hit a record after positive vaccine news

The rally was led by cyclical stocks, with pre-market trading indicating the shares of some US airlines as high as 24%. Futures on the small-cap index, the Russell 2000, were up as much as 7% too, in further indication that investors were positioning themselves for an economic recovery.

Stock markets tend to discount the future instead of looking in the rearview mirror. Hence, even if any of these late-stage vaccine trials hits a bump, what investors care about now is that there is a way forward. In fact, stocks have already started to discount the roll-out of the vaccine now and may not even rally as much when it is fully approved. Still, with this latest uncertainty fading, the stage is being set for a 2021 bull market.

Investment Strategy Update

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