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A vaccine may take time, but new lockdowns seem less likely

◆ Number of global new cases continues to rise but percentage of those that lead to deaths has stabilized.

◆ Better treatments and more knowledge about the virus may be contributing to the stability.

◆ Lower new deaths to new cases ratio could also mean that healthcare systems are less strained.

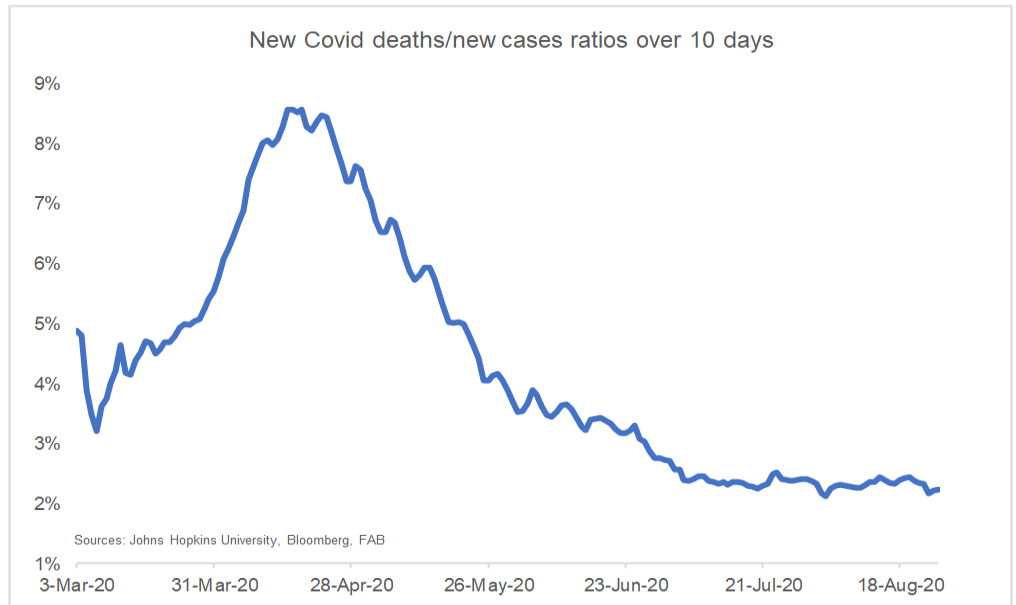
◆ Less popular support for lockdowns could curtail extreme measures such as the ones seen in April, though some restrictions could return.

◆ The FAB AAC remains underweight equities while favouring gold and investment-grade debt.

Commentators in search of a narrative for yesterday's stock market sell-off seem to have latched on to the idea that a pause in the trials for one of the vaccines in development drove investors to safety. It is always dangerous to try to find macro explanations for market moves (which are often random), but this one seems particularly misleading.

First of all, the vaccine trial that was paused on safety concerns is one of nine which are at an advanced stage. Even though the key players in that field stated over the weekend they will prioritize safety over speed, the pressure to be the first to roll out the vaccine is likely to keep things moving in the laboratories. Especially after Russia released the first vaccine, despite questions from scientists about its safety data and testing rigor.

Then there is the issue of what actually worries investors in terms of a vaccine.



Sure, the longer it takes for a vaccine to be rolled out and approved worldwide, the longer it will be before life returns to normal. However, the lockdowns that pushed the world economy into its worst recession in a century are unlikely to return, and even if some restrictions do, they are likely to be more contained.

The reasons for that assumption are two: there is less popular support for lockdowns than in March (as evidenced by protests in Germany against new shutdowns) and doctors are now better at treating the virus, which means a lower probability of overwhelming healthcare systems.

Initially, doctors treated Covid-19 as they would respiratory failure (when a patient's lungs stop working). Standard procedure there is to put the person on a ventilator, pushing oxygen into the lungs. However, a series of autopsies in Italy and then New York in April concluded that patients' lungs were fine, it was the oxygen absorption in the blood that was not happening.

The share of people who die after catching Covid-19 has stabilized as treatments evolve

This helped explain the initial high death rate for patients on ventilators and markedly changed the treatment procedure. Then, doctors began to find that some widely available drugs helped treat the disease and reduce the number of people who went into intensive care.

Covid-19 remains a dangerous disease. It is highly infectious and kills about 3.3% of those infected (especially older and more vulnerable patients). However, falling transmission rates in many countries suggest people seem more aware of this and of how to avoid spreading the virus.

Covid-19 will still cause a lot of pain this year, both in the human and the economic realms. Yet, the virus's power to move the markets seems to have weakened.

Investment Strategy Update

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