

Investment Insight

Coronavirus vaccine developments – first take

WHAT HAS HAPPENED?

Drug company Pfizer has released data on the efficacy of a vaccine it has been developing in concert with a German firm named BioNtech. The vaccine demonstrated greater than 90% efficacy in the interim analysis of the trial, meaning that it mostly stops patients developing the Covid-19 symptoms that help spread the virus. It is comfortably above the 50% threshold that the US Food and Drug Administration (FDA) had indicated would be required for a vaccine to be approved. We do not yet know for how long this vaccine affords protection or whether so-called antigenic mutations of the virus will require the vaccine to be periodically altered, much as with annual flu vaccines.

WHAT HAPPENS NEXT?

Before the FDA can approve the vaccine for use in the US, the trial needs more time to be able to provide safety data, as severe adverse reactions typically manifest themselves six to eight weeks after vaccination. Regulators in Europe and the UK are likely to approve the vaccine within weeks of the US approval. We also anticipate trial data for other vaccines this month, including the one AstraZeneca and Oxford University are developing.

WHO WILL GET VACCINATED FIRST?

Not everyone will get a vaccine as soon as it is available, as manufacturing capacity is limited. Pfizer expects to manufacture 50 million doses of the vaccine by the end of 2020, enough to treat 25 million people as two doses are needed. Governments are expected to prioritise vulnerable people and frontline workers, which typically make up 20% of the population. Supply in 2020 will not stretch to this for the firms that already have orders in. For example, the UK has doses on order with Pfizer to treat just over half of its elderly, and care and health workers. For this reason, there will be a market for several vaccines. Transportation and safe storage (including refrigeration) of vaccines may prove tricky logistically, before health programmes are rolled out.

WHAT DOES THIS MEAN FOR THE ECONOMY?

The fact that an effective vaccine appears possible is evidently good news for the economy as, without one, it is hard to see an end to social restrictions, which have a high cost to the economy. Meaningful progress could be made on vaccination programmes in developed countries in 2021, which makes a return to “normal” possible. The quicker-than-expected rollout of the vaccine could boost global growth by 0.5 percentage points in 2021. However, progress on vaccines will not be quick enough to stop the current wave of coronavirus infections, which has necessitated social restrictions in most developed market economies. These measures appear to have slowed the spread of the virus in the UK and Europe but, until vaccination is widespread, cases are likely to rise again when social restrictions are relaxed. With this in mind, immediate economic data is likely to remain weak. Segments of the economy remain closed, weighing on the labour market.

WHAT DOES THIS MEAN FOR MARKETS?

Markets have rallied spectacularly on the vaccine news, with the global equity market up 3% on Monday. Areas of the market worst impacted by the pandemic have been the biggest beneficiaries, including travel and leisure, while companies that have benefitted from pandemic-induced changes to living habits sold off. At a broader level, the move is supportive for global growth, benefitting companies exposed to the economic cycle. This also means investors may be less willing to pay a premium for structural growth stories. Longer-term inflation and interest rate expectations have also revived, though near-term bond yields remain depressed, reflecting the fact that interest rates are likely to remain low for some time.

CONCLUSION

Successfully developing and distributing vaccines globally is the surest route to fully reopening the economy and the Pfizer - BioNtech vaccine shows that this path exists. It will take time for the economy to feel the advantage and the impact may be uneven globally, with the US likely the first economy to benefit. The efficacy of national health policies will continue to determine how each economy fares and fiscal stimulus will continue to be important near-term, magnifying the inequitable impact of Covid-19 on the global economy. Nonetheless, while questions remain, an effective vaccine is great news in the quest to save lives and reignite global growth.

IMPORTANT INFORMATION

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