

THE RACE BETWEEN COVID VACCINATION AND MUTATION

By Nick Terhune, CFA[®], Vice President, Senior Equity Analyst

Analysts studying the healthcare industry's war on the coronavirus often have a bird's-eye view of the importance of perceived medical breakthroughs. As part of their "due diligence" these analysts speak with a myriad of professionals, including epidemiologists, scientists, doctors, caregivers, and hospital supply chain managers to provide the context needed to interpret the latest news. Commerce Trust Company Senior Investment Analyst Nick Terhune, CFA[®], follows up on his commentary last spring by sharing his insights on where the country is in this fight against the pandemic today.

COVID VACCINE UPDATES SEEM TO BE IN THE NEWS OFTEN LATELY. WHAT IS THE CURRENT VACCINE STATUS?

Two COVID vaccines have received U.S. regulatory authorization and are in the early stages of being distributed in the United States. Two additional COVID vaccines recently demonstrated they are safe and effective at preventing severe COVID illness, which could lead to regulatory authorization as well. Without question, additional vaccine availability is a positive in the global fight against COVID. However, the latest data also revealed variability in vaccine effectiveness against new mutations of the COVID virus.

VIRAL MUTATION SOUNDS FRIGHTENING. WHAT IS IT AND WHY IS IT IN THE NEWS?

As the virus reproduces during infection it essentially makes copies of copies. This process sometimes results in imperfect copies, or mutations, that then reproduce. In some cases, these mutations prove more contagious or pose a greater challenge to the immune system. Numerous COVID mutations are currently spreading and additional mutations appear likely due to the high number of COVID cases globally.

HOW DO THESE MUTATIONS IMPACT THE VACCINATION PROCESS AND EFFORTS TO COMBAT THE VIRUS?

Current COVID vaccines were developed using the original virus as a target and appear highly effective protecting against it. However, the protective benefits of the original vaccines may be somewhat diminished as the virus shifts away from this original version over time. In short, the vaccines (and treatments for that matter) are attempting to hit a moving target.

Fortunately, scientists appear able to respond to this moving target. Current testing capabilities identify relevant new strains relatively quickly. This new target can then be incorporated into updated vaccines using accumulated COVID vaccine experience. Leading vaccine developers believe updated COVID vaccines to match known mutations can be developed in a matter of weeks. It is possible these updates may be able to forego lengthy clinical trials due to experience with the original version.

VACCINATION DISTRIBUTION HEADLINES HAVE BEEN RELATIVELY CRITICAL TO DATE. WHAT IS THE OUTLOOK FOR THE VACCINATION PROCESS ITSELF?

Yes, the initial vaccination process had a bit of slow start. Some of this can be attributed to staffing constraints around the holidays and the resurgence of COVID spread that followed holiday gatherings. However, there are reasons to be hopeful. Real time monitoring technology intended to ensure the vaccines maintain cold storage

during transport also provide detailed logistics data. This data allows the challenges to be quickly identified and addressed. I recently attended a vaccine distribution discussion panel that included representatives from the entire commercial vaccine supply chain, from manufacturer to pharmacy. The collective response was that logistics data easily proves 99% order accuracy up to the point of hand off to state and local governments responsible for vaccination of the first recipients. This population can be difficult to reach and later phases should prove more efficient. The addition of new vaccine manufacturers should help as well.

THERE ARE A LOT OF MOVING PIECES TO THE COVID IMPACT ON THE ECONOMY AND MARKETS. HOW SHOULD INVESTORS VIEW THESE IN THE CONTEXT OF THEIR EQUITY INVESTMENT PORTFOLIO?

The race between mutation and vaccination is important in the near term but may be less of a factor as time passes. American society is approaching a full year of extreme lifestyle disruption and pent up demand for “normalcy”. Although current vaccines may not guarantee complete protection from new strains of COVID, they do currently appear effective at preventing severe illness from these strains. This lower standard may be viewed as “good enough” for consumers experiencing cabin fever and pandemic fatigue when Spring arrives. It may be a year or more before large indoor gatherings or other high-risk activities recover but the domestic march toward reopening appears on track aided by masks, disinfectants, COVID testing, and vaccinations.

If this scenario becomes reality, the current uneven economic recovery from the trough should continue to broaden and gain strength. By midyear, companies should be reporting healthy revenue and earnings growth against depressed prior year comparisons. Economic activity should continue to accelerate aided by restocking lean inventories caused by global supply disruptions and capital preservation actions in the downturn. Employment growth and consumer spending should expand across the economy as life returns toward normal. If the economy and pandemic are under control, political leaders can refocus on agenda items such as infrastructure spending, another stimulus to the economy.

Pulling it all together, the end to the pandemic appears within view but it is a moving target. Because financial markets are leading indicators, there will likely be rotations and volatility along the way as mutation and vaccination wrestle for investor sentiment and positioning. In this scenario, a diversified stock portfolio appears appropriate. Technologically advantaged secular growth stories likely remain winners but an economic reflation described above is typically a favorable backdrop for a procyclical rotation as we experienced in late 2020.

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