12 November 2020

Macro Insight

Moving towards a vaccine

Recent positive vaccine developments raise the prospect for mass-immunisation in 2021

Additional vaccines are likely needed whilst logistical challenges remain

Our views

Better news on vaccines significantly boosts the global economic outlook. We would expect risk-assets and particularly cyclical markets to perform well in this environment

Meanwhile, we remain underweight developed market government bonds given low prospective returns

On 9 November, two US and German-based pharmaceutical companies announced that their joint m-RNA-based vaccine candidate had achieved 90% effectiveness in preventing Covid-19 during Phase 3 clinical trials. This is significantly higher than the 50% efficacy required for expected US Food and Drug Association (FDA) approval, and the 60-75% expected in the scientific community.

Given they are currently in the late stages of clinical trials the companies anticipate filing for FDA Emergency Use Authorization by end of November. From here, they expect to produce 50 million doses by end of 2020 and 1.3 billion by end of 2021 – enough to inoculate 650 million people.

Of that, almost half has already been allocated to the US whilst a quarter is expected to be provided to the UK, EU, Japan, and Australia via pre-agreements. This indicates that the US could inoculate the majority of its population with the vaccine in 2021 (around 90%), whilst other countries with pre-agreements could reach 20-50%.

Development of multiple vaccines is likely important

Without an upwards revision to current production plans, it is clear that global immunisation would require the development of additional vaccines. Currently, 51 other vaccines are in clinical trials, with many of those in late-stages (Figure 1). Historical rates of approval and the unprecedented level of investment in research bodes positively for multiple vaccines in 2021.

Figure 1: Covid-19 Vaccine Tracker

Phase 1 Vaccines testing safety and dosage	**Phase 2** Vaccines in expanded safety trails	**Phase 3** Vaccines in large-scale efficacy tests	**Limited** Vaccines approved for early or limited use (Russia, China and U.A.E only)	**Approved** Vaccines approved for full use
38	14	11	6	0
41% chance of reaching phase 2*	34% chance of reaching phase 3*	60% chance of being approved*	**"Superforecasters" expect a vaccine to become widely available in US by Q1/Q2 2021**	

Source: The New York Times; *Wong, Siah, Lo (2019); HSBC Global Asset Management, as of 12 November 2020 and subject to change.

Overall, developments have brought forward expectations for when a vaccine(s) may become widely available in the US (Figure 2). Expectations for mass rollout in other developed markets have also likely moved forward – both on pre-agreements and increased optimism for the successful development of additional vaccines.

Nonetheless, there are reasons for caution. There is limited detail regarding the effectiveness of the possible vaccines, while distribution could face significant logistical issues. Indeed, the vaccine announced on 9 November is subject to a number of uncertainties and challenges:

1. Patients require two jabs on a precise schedule
2. The vaccine needs to be kept at exceedingly low temperatures, meaning hospitals will likely have to administer it - compromising the speed of delivery
3. The length of immunity, and the effectiveness of the vaccine on specific demographic groups and patients with pre-existing medical problems remains unknown

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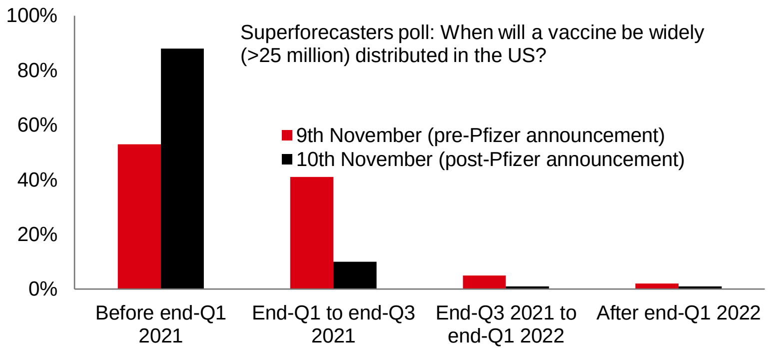
Mass rollout of vaccines could materially improve macroeconomic conditions, although challenges remain

Figure 2: Expectations for a vaccine in the US



Source: Good Judgement Inc., HSBC Global Asset Management, as of 10 November 2020. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

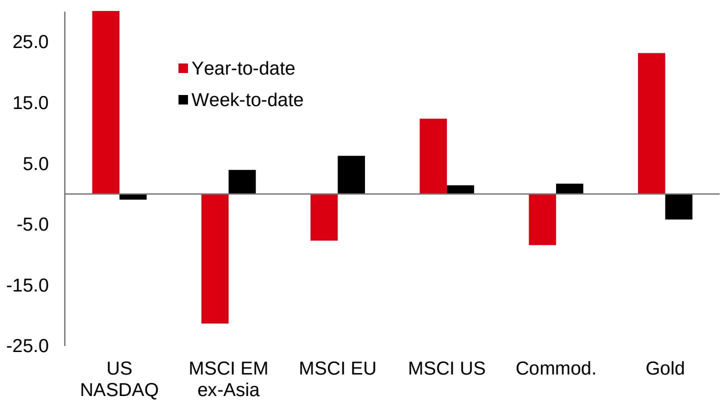
How have markets responded?

Globally, risk-assets rallied strongly in response to the news. Prospects of mass vaccination improve economic sentiment whilst ultimately, albeit not immediately, reduce the need for tough social restrictions that have hit economic output and profits on an unprecedented scale.

Cyclical equities rallied on an improved outlook, whilst markets that have outperformed in 2020, lagged

Market action has given us an insight into assets that could outperform under a scenario of vaccine rollout. Notably, cyclical stocks, commodities, and risk-assets that have lagged during this crisis, such as Europe and EM ex-Asia equities, performed well (Figure 3). Assets that have outperformed year-to-date including tech and gold, fell on the news as treasury yields spiked and narratives of reflation resurfaced following months of low global inflationary pressure.

Figure 3: Market moves



Source: HSBC Global Asset Management, as of 12 November 2020. Past performance is not an indication of future returns.

Investment implications

Following the US election result that showed the likelihood of a Biden victory and split Congress outcome, risk assets saw a broad rally as investors priced in an environment of reduced economic uncertainty (a Democrat Party constrained in implementing market unfriendly aspects of their policy agenda, and Biden likely pursuing a multilateral approach to trade disputes).

The overall environment remains positive for global risk assets whilst government bonds could underperform

However, recent positive vaccine news is a **positive growth shock**, similar to the May/June phase of equity market gains that coincided with upside surprises to the recovery from spring lockdowns. Whilst there is uncertainty over when herd immunity can be reached, a higher probability that the pandemic can be contained next year boosts the global economic outlook.

Recent price action has shown the intra-equity market effects of this type of shock. **Indeed, we are now more positive on equity markets exposed to the economic cycle that have lagged in their performance this year**. But we acknowledge that expected returns have fallen over 2020 and we need to be realistic.

Meanwhile, although developed government bond yields have recently edged higher, prospective returns remain relatively low. An improving economic outlook and evidence of deteriorating diversification properties mean we remain strategically underweight.

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