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Headlines

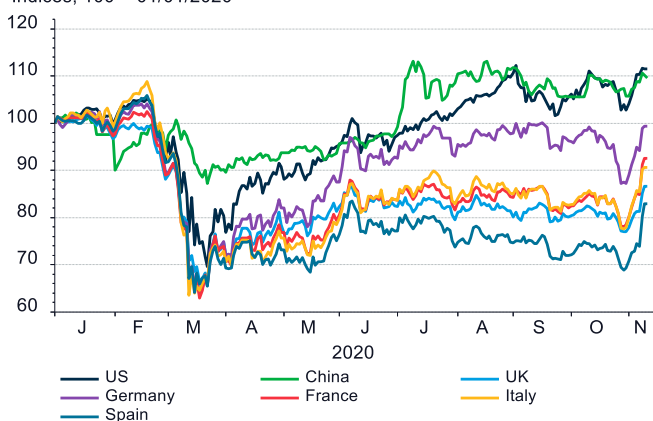
- Initial results suggest Pfizer/BioNTech vaccine is '90% effective'
- Evidence of reduced coronavirus incidence in parts of Europe, with cases down significantly in Belgium and Ireland
- Joe Biden declared US President-elect; President Trump has however not conceded, and vows to fight the results in court
- Michel Barnier in London for Brexit talks as the EU and UK seek to avoid a 'No Deal'

The world was not short of news over the past week, with a potentially game-changing announcement relating to a coronavirus vaccine, while a winner was belatedly declared in the US presidential election.

In a [press release](#) on Monday, Pfizer and BioNTech announced that initial results suggest that their coronavirus vaccine is '90% effective'. The statement said that the 'case split' among the 94 patients that developed COVID-19 within their 43,538-strong clinical trial pointed to 90% efficacy. That implies 8 or 9 of the 94 who became ill were in the vaccinated group. That level of effectiveness is higher than vaccines against influenza, which are estimated to be 40% to 60% effective. If that holds up in peer-reviewed studies, and across age groups, it would be excellent news. The announcement triggered bullishness in equity markets, with indices gaining around the world.

Major equity indices

Indices, 100 = 01/01/2020



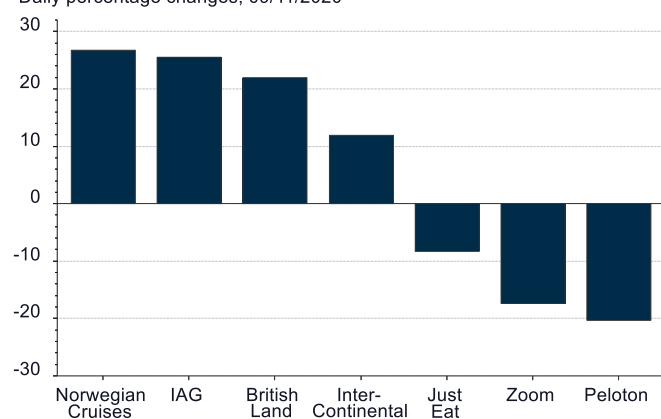
Source: Refinitiv Datastream / Fathom Consulting



Changes to the share prices of individual companies varied considerably, as investors priced in a move toward 'old normal' spending patterns. Cruise liners and commercial property landlords bounced higher, while staples of the 'working from home' lifestyle, such as Peloton and Zoom, performed poorly. Those large, daily changes masked more secular trends, however. Only a small part of the gains that 2020 'winner' companies have racked up this year were erased. Likewise, only a portion of the losses for 2020 'loser' companies were made up. Questions abound about a return to 'normality'. Equity market developments suggest that if and when a vaccine is rolled out, life will not instantly return to the 'old normal' that existed pre-COVID.

Winners and losers following vaccine news

Daily percentage changes, 09/11/2020



Source: Refinitiv Datastream / Fathom Consulting

Winners and losers following vaccine news

Indices, 100 = 01/01/2020



Source: Refinitiv Datastream / Fathom Consulting

This week's vaccine news is encouraging. Experts believe it bodes well for other vaccines in late-stage trials. If other leading candidates prove to be successful, the world could have more than five billion doses available by the end of next year. The relative efficacy of different types may affect global rollout. The BioNTech/Pfizer vaccine is an mRNA vaccine, which must be kept at much lower temperatures than standard vaccines: -70 Celsius in its current form. That means existing distribution structures need adapting. The company also only expects to produce 50 million doses by the end of December, enough to inoculate just 25 million people. The Chinese firm Sinovac, however, is targeting 610 million doses by the end of the year and upwards of one billion in 2021. Both vaccines require two doses. If all goes to plan, Sinovac may be able to inoculate twelve times as many people with the vaccines they produce this year — and its vaccine can safely be distributed at a normal fridge temperature of below 8 Celsius. However, with current orders from several developed countries already close to one billion, perhaps the most highly anticipated vaccine candidate is being produced by the University of Oxford and AstraZeneca. It too needs two doses and can be kept at a similar temperature to the Sinovac vaccine. However, estimates suggest that there is the capacity to make three billion doses at around \$3 each — a tenth of the price currently offered by its Chinese competitor.



Leading COVID-19 candidate vaccines in phase 3						
Developer	Number of doses needed per person	Time between doses, days	Storage temperature, celcius	Production capacity estimates, million doses		Price per dose, USD
				2020	2021	
Sinovac	2	14	2-8	610	>1000	29.75
AstraZeneca (Oxford)	2	28	2-8	Capacity to make 3000		3.00
CanSino Biological Inc	1	-	2-8	-	100-200	15.00*
Moderna	2	28	-20	<10	500+	35.00
Pfizer/BioNTech	2	28	-70	50	1300	19.50

Vaccine type:

*Estimated

- Inactivated
- Non-Replicating Viral Vector
- mRNA

Source: WHO / Fathom Consulting

All things considered, the news about the early efficacy rate of the BioNTech/Pfizer vaccine is unambiguously positive for the economic outlook. Admittedly, a vaccine will not arrive in time to spare a probable contraction in GDP in many European countries this quarter. However, it gives us more certainty that economic activity will rebound strongly in 2021. One important tailwind through next year will be the substantial amount of savings that households have built up in developed markets since March. In the US, for example, aggregate personal savings over the past twelve months were \$1.3 trillion higher in September than they were in February. If effective vaccines are rolled out, it appears probable that much of those savings will be unwound, with spending likely to be particularly strong in badly hit services sectors such as hospitality and tourism. Improved confidence about future demand should boost business confidence now, and business investment should react ahead of widespread vaccinations. So while the near-term economic outlook in Europe and the US is weak or sluggish, we have greater conviction in a pronounced rebound in confidence and spending through 2021. We are updating our economic scenarios, and will present these to clients in the coming weeks as part of our quarterly *Global Economic and Markets Outlook* presentations.

US personal savings

USD, billions, twelve-month sum



Source: Refinitiv Datastream / Fathom Consulting

In non-vaccine news, Joe Biden was declared US President-elect over the weekend. We outlined the likely implications for the US economy in a recent [research note](#). If he does not have Democratic control of the Senate, as appears likely, he will still have something close to free rein in setting foreign policy. We await clarity on how a Biden administration will approach relations with China in particular. Our China Exposure Index (CEI), which tracks the relative equity prices of US-listed companies with a large exposure to China, suggests investors expect an easing in tensions. The index, which has a good record in tracking Sino-US tensions, has increased sharply since September, in line with Biden's perceived likelihood of winning the election. In reality, it is not clear to us that a Biden administration will implement a materially different China policy. Indeed, it is our long-held view that Sino-US tensions go beyond the politics of the current administration, and instead reflect what is likely to be a multi-year battle over global influence. If that proves to be the case, the CEI may have some room to fall.



US China Exposure Index (CEI)

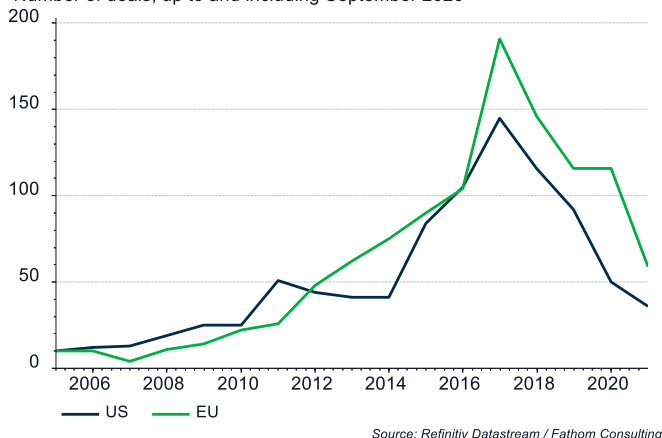
Index, 100 = 08/11/16



During President Trump's time in office, Chinese M&A investment into the US has fallen significantly. In 2019 the number of deals stood at just over a third of its peak in 2016, with the value of these deals falling by much more. President Trump has tended to act unilaterally, but Chinese M&A into Europe has also fallen substantially in recent years. President-elect Joe Biden has already made clear his intention of re-joining the WHO and the Paris Climate Agreement, suggesting his administration will adopt a more multilateral approach to foreign policy. It thus seems possible that future action on China will become more synchronised by the US and its partners. If that is the case, then the common trend seen in outbound Chinese M&A may also be detected in other economic relationships such as trade, where US-China flows have dropped much more than EU-China flows.

China M&A investment into US and EU

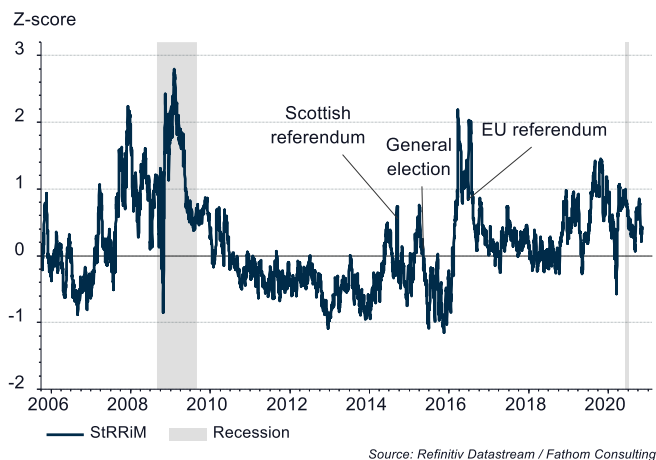
Number of deals, up to and including September 2020



Michel Barnier, the EU's chief negotiator, is in London for talks as the clock ticks towards the end of the UK's transition period without an agreed deal. The mood music appears to have improved, with speculation that Mr Biden's electoral victory will increase the pressure on London to come to an arrangement. In our view, it appears more probable than not that the two sides will strike a deal. However, investors appear even more bullish than that. Fathom's Sterling Relative Risk Metric, which calculates the relative risk across sterling assets compared to other developed markets, is relatively muted. Should talks break down, we would expect a spike higher.



Fathom Sterling Relative Risk Metric (StRRiM)



Interesting reading

- A study on the risks of coronavirus transmission suggests that talking to someone for 30 minutes may be riskier than sleeping with them: [https://www.thelancet.com/action/showPdf?pii=S1473-3099\(20\)30833-1](https://www.thelancet.com/action/showPdf?pii=S1473-3099(20)30833-1)
- Further evidence that even short school closures have large negative effects on students, with losses particularly high among disadvantaged pupils: <https://voxeu.org/article/collateral-damage-children-s-education-during-lockdown>
- Evidence from an Ebola outbreak in Sierra Leone suggests that vaccines requiring extremely cold storage can be deployed in even the most challenging circumstances: https://academic.oup.com/jid/article/217/suppl_1/S48/4999139
- As President Trump vows to fight his electoral defeat in the courts, most Americans - including a majority of Republicans - believe Biden to be the winner: <https://www.reuters.com/article/us-usa-election-poll-idUSKBN27Q3ED>
- Florian Krammer highlights why this week's vaccine news bodes well for other vaccines in development: https://twitter.com/florian_krammer/status/1325887332428505090?s=19



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