

What a difference a vaccine makes!

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November started on the wrong foot, with equity markets in several emerging markets, including South Africa, still reeling from a sharp decline in the value of benchmark indices, prompted to a large extent by a second wave of Covid-19 infections in many countries, especially in Europe and the US.

A mood of despondency was evident in the announcements by several governments of a return to more stringent lockdown regulations and several major sports events that had allowed limited spectator attendance were forced to back-track. Once again, stands at tennis tournaments and rugby & soccer matches were empty.

Question marks also appeared over the ability of the high-income countries to sustain the fairly swift economic recovery that had become quite evident in the return to above the neutral 50-mark of purchasing managers' indices (PMIs) in virtually all of the world's largest 40 economies, who represent more than 90% of Global GDP.

Success with vaccine trials

The risk-off sentiment towards emerging markets was short-lived, however. Three major announcements by two different pharmaceutical companies searching for a vaccine against Covid19 dramatically altered the fortunes of equity markets around the globe, whilst also generating increased appetite for emerging market bonds.

In announcing the 90% effectiveness rate of a vaccine candidate in a clinical trial involving more than 43,000 participants, Pfizer's Chairman Dr Albert Borla proclaimed that Monday, 9 November would stand out as "...a great day for science and humanity".

The initial evidence of the Pfizer vaccine's ability to prevent COVID-19 certainly comes at a time when the world needs it most, due to infection rates setting new records in several countries, hospitals under severe pressure and many countries struggling to resuscitate all the sectors of their economies.

Hot on the heels of this breakthrough in bringing to an end the worst global health crisis in a century came another announcement of a successful Covid-19 vaccine trial, this time from the Massachusetts-based company Moderna.

On 16 November, Dr Stephen Hoge, president of Moderna, stated that he had "...grinned from ear to ear for a minute" when the results of a 94.5% rate of effectiveness of the vaccine came in. The Moderna trial was conducted amongst 30,000 people in the US.

Then, scarcely two days later, Pfizer released a further statement on the company's joint phase three trial with BioNTech, which had shown close to 95% effectiveness for the vaccine.

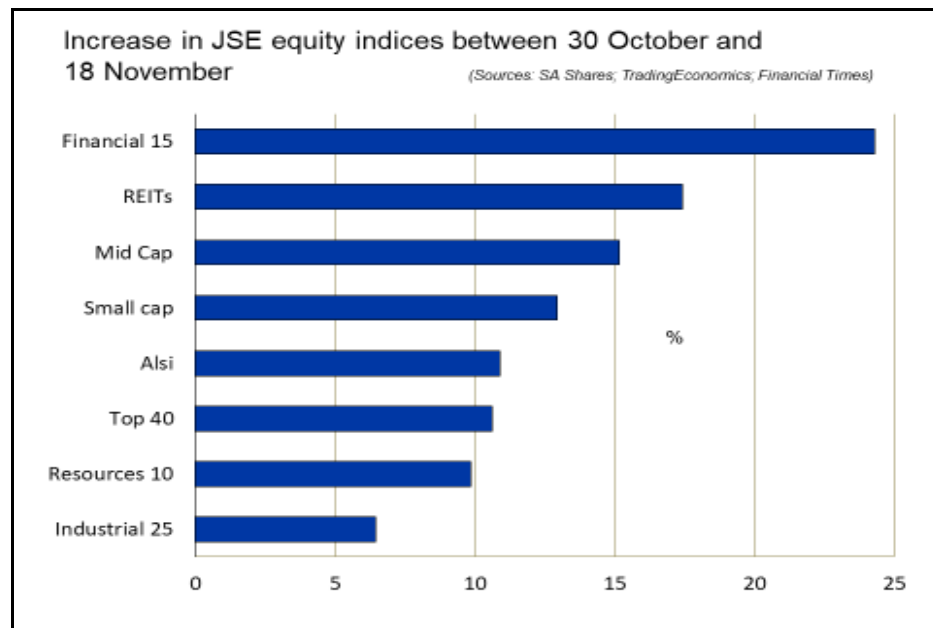
Tech companies take a beating

Capital market reaction to these announcements centered on a very clear belief that life would soon return to normal. Many stocks that had benefited from changes to consumer behavior (induced by the lockdown regulations) were hard done by as a result of the new-found hope

that the end of the pandemic was in sight. These included global brands such as Amazon, Facebook, Zoom and Netflix.

Most of the other equity market sectors were enjoying the switch from “stay-at-home” stocks to those that were always going to make up lost ground from a potential return to normal life.

Companies in the sectors for travel & leisure, finance, energy, real estate and manufacturing have seen fairly dramatic rises in their market capitalisation since the first announcement by Pfizer, with the S&P 500 companies adding more than \$1-trillion to their combined market value in the space of eight trading days.



JSE gallops ahead

The JSE has followed suit, with substantial gains for virtually all of the sector indices. Financials are leading the pack, with a gain of more than 24% since the beginning of November.

The fact that the index for real estate investment trusts (REITs) is the second best performer during November (to date) is particularly encouraging. On 18 November, the JSE REIT Index was 17.4% higher than at the end of October.

Over the next couple of months, fund managers around the globe will be faced with the daunting task of deciding which companies remain undervalued and which remain overvalued.

It nevertheless seems certain that global bond yields will become relatively less attractive, compared to equities, especially when dividend payments return to normal mode.