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Global health check: assessing the global vaccination rollout

Our weekly view on Asset Allocation

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Global vaccination rollout

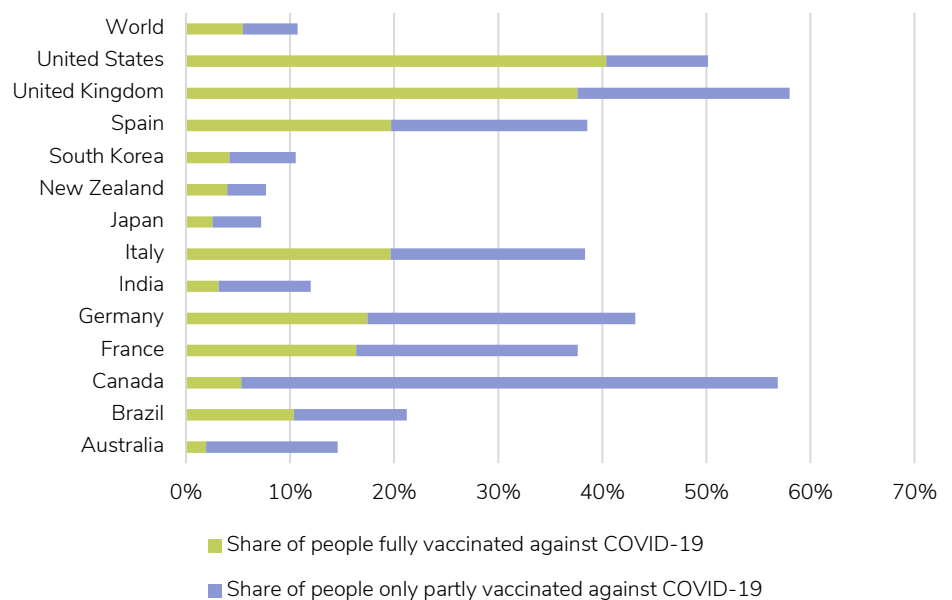
The COVID-19 pandemic has spurred advances in vaccine development at an extraordinary scale, with multiple effective vaccines now in production and distribution.

The announcement of highly successful stage 3 trials in early November, followed by the ramp-up of a global vaccination program beginning in December, has acted as an accelerant to the global equity rally, which was previously running mostly on the fumes of monetary and fiscal policy stimulus. However, while risk assets are taking an optimistic view of the program, it is still relatively early days in a huge logistical process, and significant challenges remain.

More than 2.01 billion doses have been administered across 176 countries. While encouraging, the world's total population is 7.9 billion (the adult population is 5.1 billion) so we are still a long way from approaching any notion of herd immunity (most vaccines require 2 doses for full protection).

While the best vaccines are thought to be more than 95% effective in preventing significant illness, it will take a globally coordinated campaign to truly stop the global pandemic. It is suggested that vaccinating 70% to 80% of the global population would enable herd immunity and a return to some sort of normalcy. Many developed countries have this goal in sight by year end, but it's a very challenging level of vaccination coverage at a global level. At the current global pace of 35 million doses a day, it would likely take another year to achieve a significant level of global immunity.

Exhibit 1: COVID-19 vaccination rates by country



Source: Refinitiv, Wilsons

Most of the vaccines currently in use require two doses for a patient to be fully vaccinated. In February, the US Food and Drug Administration authorised a one-shot vaccine by pharmaceutical giant Johnson & Johnson for use in the United States. This was ratified by the World Health Organisation (WHO) in March for global use. The introduction of J&J's one-shot option should make it easier to vaccinate hard-to-reach populations.

Less wealthy countries are also relying on a vaccine-sharing arrangement called Covax, which aims to provide two billion doses by the end of the year. The Oxford-AstraZeneca is the most widely-ordered vaccine.

AstraZeneca has promised 2.7 billion doses to 74 different countries and organisations this year but has faced production delays and concerns that its vaccine causes rare blood clots. So far, 12 vaccines producing a total of 8.7 billion doses have received regulatory approval for use in the countries for which they have been ordered.

Vaccines are proving highly effective

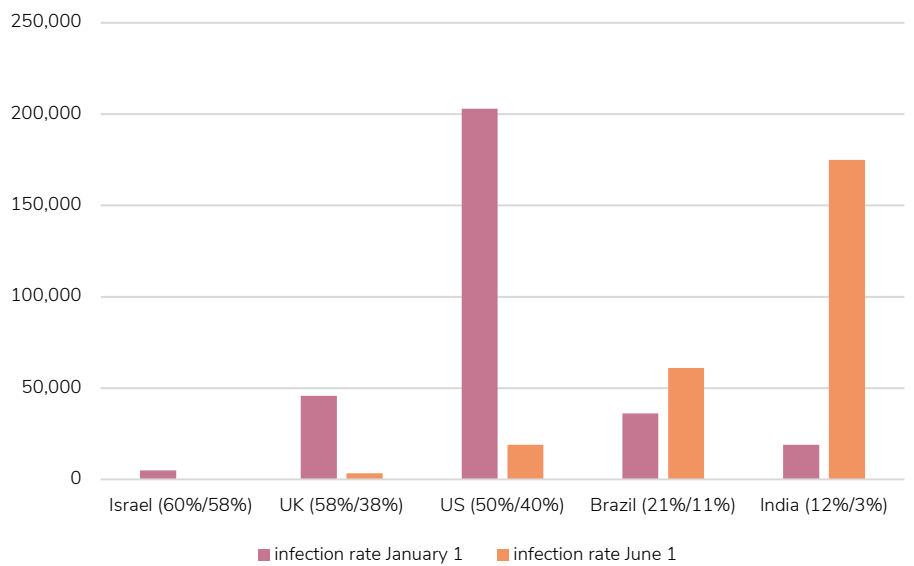
It is encouraging that COVID-19 infection rates have generally flattened or declined where vaccination rates are highest. Israel was the first to show that vaccinations were having a significant nationwide effect. The country has led the world in vaccinations, and by February more than 84% of people aged 70 and older had received two doses. Severe COVID-19 cases and deaths declined rapidly. Analysis in the UK (where 58% have now received at least one dose) has shown a similar result.

The US has also made considerable strides in its vaccination programme this year, with 50% of the population receiving 1 dose while 41% have received 2 doses. In the US, the latest vaccination rate is 1 million doses per day, on average. At this pace, it will take another 4 to 5 months to cover 75% of the population (assuming compliance) to achieve a coverage level approximating herd immunity.

The major European countries started slowly, but now around 40% of the population has received at least one dose.

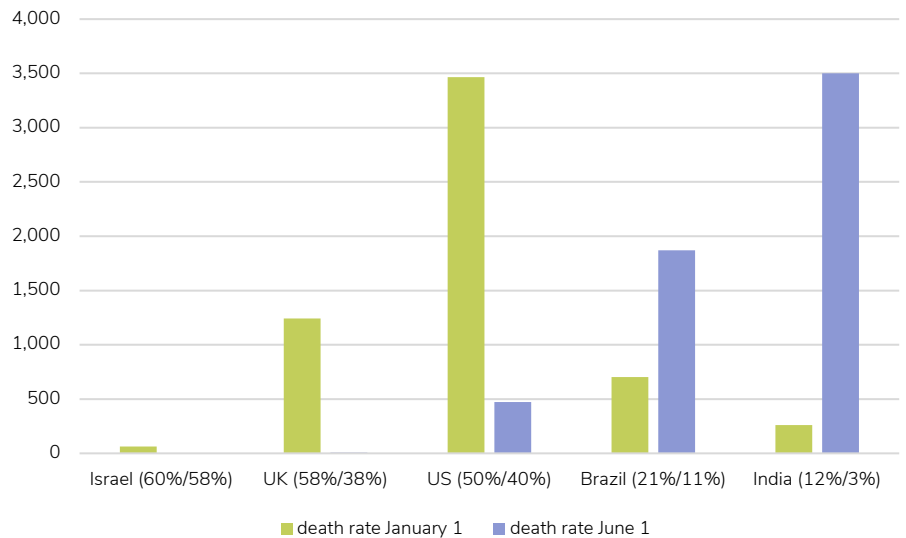
Australia is running at a much slower pace, with only 16% of the population receiving a dose, although the rate is now picking up. Estimates for herd immunity coverage are still quite varied, ranging from year end (optimistic) to the end of the March quarter or slightly later.

Exhibit 2: Daily infection rates have collapsed in countries with greater than 50% vaccination rates (1 dose and 2 dose % shown in brackets).



Source: Refinitiv, Wilsons

Exhibit 3: Daily death rates have collapsed in countries with greater than 50% vaccination rates



Source: Refinitiv, Wilsons



Vaccine hesitancy a potential challenge to herd immunity

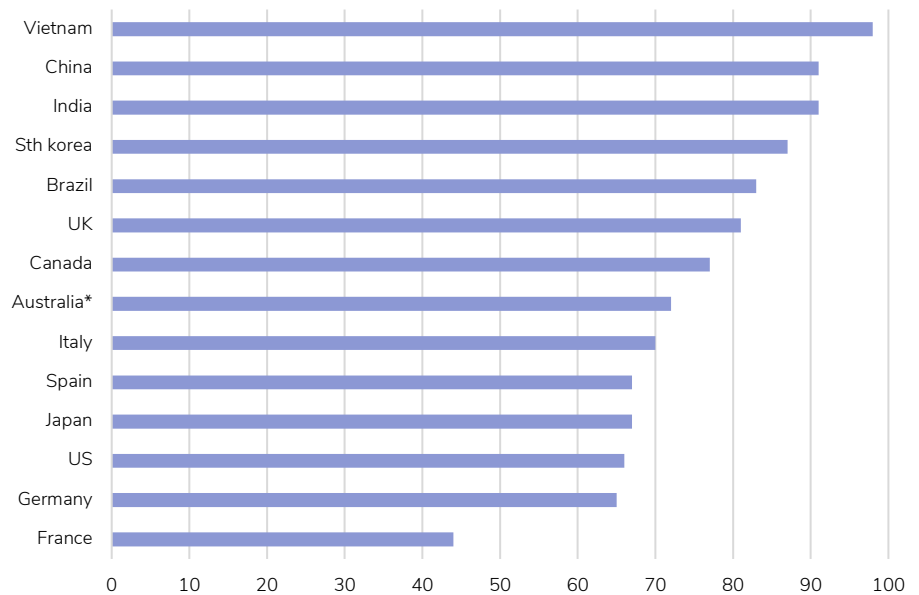
The ultimate effectiveness of the vaccine program may also be hampered by vaccine hesitancy, potentially leading to refusal or delayed acceptance of COVID-19 vaccines. Hesitancy is prevalent in low-income and high-income countries alike, with sceptics seemingly found in all socioeconomic, religious, and ethnic groups.

Exhibit 4 presents data from a broad survey of potential acceptance of COVID-19 vaccines conducted around December 2020. The share of respondents who said they would definitely or probably get vaccinated when a COVID-19 vaccine becomes available, was highest in Vietnam (98%), followed by India and China (both at 91%) and South Korea (87%).

The UK also signalled a high degree of vaccine take-up at 81%, however, the US acceptance came in at only 66% (below postulated herd immunity). Europe saw a wide range with Italy at 70%, Germany at 65% and France at only 44%. Clearly, many governments will need to work harder at selling the benefits of vaccination to the population.

Australia has had its own issues with vaccine hesitancy, particularly around the slow take-up of the Oxford-AstraZeneca vaccine for the over 50s due seemingly to the rare but well-published incidence of blood clotting post vaccination (at a rate of 1 in 100,000).

Exhibit 4: Percentage of population either likely or very likely to get a COVID-19 vaccine



Source: Wilsons, Lancet (32 country survey December 2020).
Australia separate survey March 2021 Vox Pop/ABC

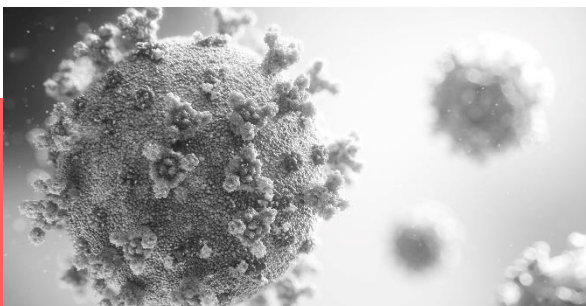
How worrying are virus mutations?

Mutations in viruses — including the coronavirus causing the COVID-19 pandemic — are neither new nor unexpected. All RNA viruses mutate over time, some more than others. For example, flu viruses often change, which is why doctors recommend that you get a new flu vaccine every year.

According to the World Health Organisation, the COVID-19 vaccines authorised for use in the United States and Europe offer protection against the four main coronavirus variants known to exist.

According to the WHO, the B.1.617 variant that has recently been running rampant in India is of particular concern. This variant has spread across much of the world, with most cases linked to international travel. It seems to be displacing the B.1.1.7 variant that had become the dominant lineage in Europe.

For the time being, it appears that all four variants do respond to the vaccines made available. However, the WHO suggests the best way to counteract both the spread and further potential mutations is to speed up the vaccination rollout particularly in developing countries with low current rates of vaccination coverage.



Market outlook in the context of the global vaccination rollout

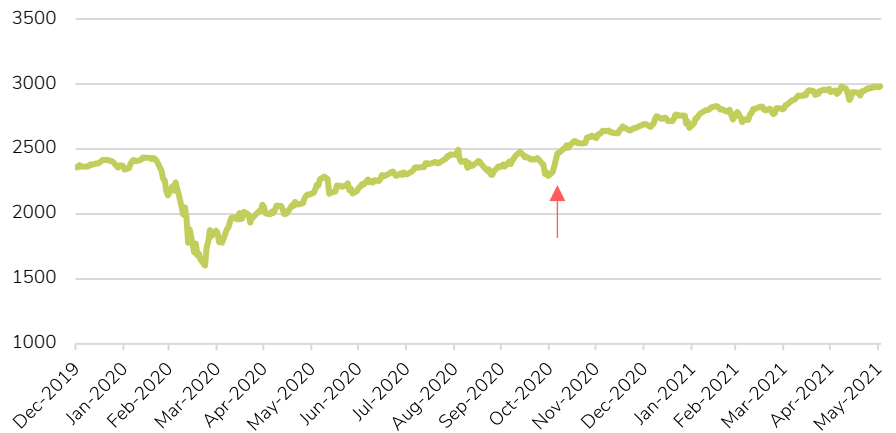
The announcement and subsequent progressive global rollout of multiple effective vaccines has sent equities back to pre-pandemic levels and indeed well ahead of pre-pandemic levels in the case of the US market.

This rally has been backed by a significant recovery in corporate earnings post the strict lockdown across much of the world in the second quarter of 2020. However, economic activity is still not operating “normally” in much of the world, and expectations for both significant incremental economic recovery and significant earnings recovery over the coming 12 months are not without risk.

Cyclical sectors have taken leadership since the vaccine efficacy announcements in early November and have now priced in a significant recovery. At the same time, the secular growth large cap COVID-19 winners of 2020 remain relatively buoyant. So, there is little margin for error in terms of either economic overheating or indeed undershooting expectations due to disappointment around the vaccine rollout and the pace of global reopening.

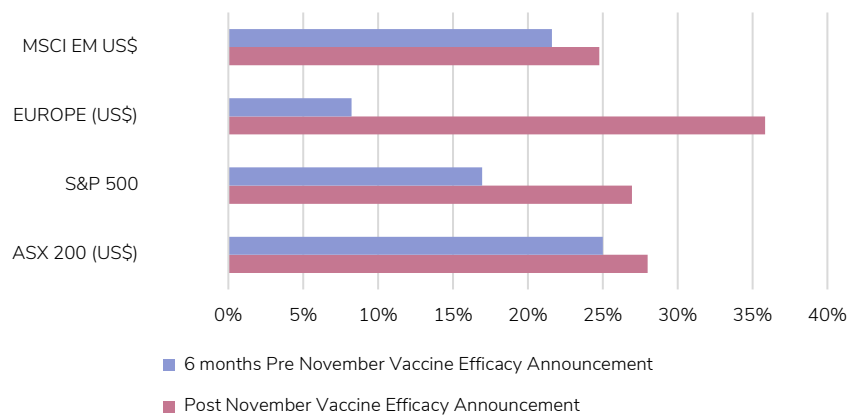
Our base case is that vaccines will continue to be effective and that global reopening, led by the developed world (and supported by ongoing strong Chinese growth), will see equities push higher on a 12-month horizon. However, as we have discussed, the vaccine rollout and global reopening scenario is a monumental task and the risk of setbacks along the way still bears watching.

Exhibit 5: Global equities surged 13% in just 1 month on the announcement of highly successful stage 3 vaccine trials



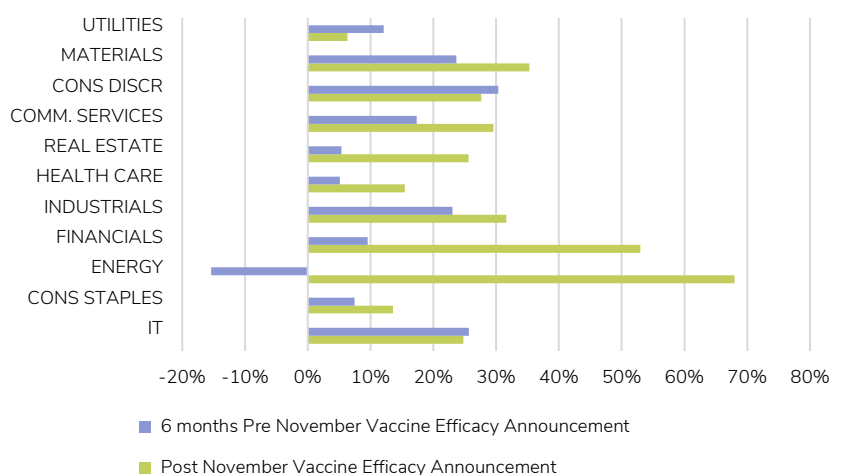
Source: Refinitiv, Wilsons

Exhibit 6: European equities have done relatively better since the vaccine announcement while Australia has been relatively steady in relative performance terms



Source: Refinitiv, Wilsons

Exhibit 7: "Value Cyclical" sectors energy and financials have surged post the vaccine announcement (World)



Source: Refinitiv, Wilsons

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Recommendation structure and other definitions

Definitions at www.wilsonsadvisory.com.au/disclosures

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All figures and data presented in this research are accurate at the date of the report, unless otherwise stated.

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