

THEMATIC

The vaccine is a binary event for the markets, not for the economy



DIDIER BOROWSKI
Head of Global Views



PIERRE BLANCHET
Head of Investment Intelligence

Investors are beginning to dream of a world immune to Covid-19. But one swallow doesn't make a spring

Since the announcements of the discovery of a very effective vaccine, first by Pfizer-BioNTech and then by Moderna and AstraZeneca, the horizon has opened up. Investors are beginning to dream of a world immune to Covid-19. **But one swallow doesn't make a spring.** Many unknowns remain (see p.4) and the Covid-19 crisis will leave lasting traces in the economy going forward.

The horizon is becoming clearer:

- **Once vulnerable or at-risk people have been vaccinated**, the healthcare strategy will change dramatically in the event of a new wave of Covid, with no further lockdowns and less need for social distancing measures. **This would put an end to the destabilising "stop-and-go" policies.**
- The sequence observed in 2020 (a very marked rebound in GDP growth in Q3) illustrates that **certain sectors that have been shut down by government measures could rebound very quickly once the constraints are lifted.** Countries that have implemented lockdowns may thus experience a sharp rebound of GDP growth over one or two quarters (due to base effects and pent-up demand).
- **In advanced economies, output has fallen but incomes have been maintained** through stabilisation policies. Monetary and financial conditions have remained accommodative. Against this backdrop, households may engage in "spending substitution". Money that has not been, or will not be, spent on certain services (tourism, catering, recreation, etc.) may be spent on other consumer goods and services once confidence returns.
- In the same way, companies that were healthy before the crisis may start investing again. M&A might improve sectors undermined by the recession.

All in all, this may lead to a strengthening of global demand fairly quickly. This all the truer as there was no financial crisis. Savings are abundant, and investment needs are elevated. This should be a favourable environment for growth.

That being said, vaccinations will not allow us to go back to square one:

- **Vaccines will arrive too late to stem the current Covid-19 wave in the US.** Simulations of epidemiological models show that if new social distancing measures are not put in place, the number of deaths could double by the end of February¹.
- **The vaccine will thus not prevent growth from falling back (temporarily) into negative territory in the short term** (in Q4 in Europe and maybe in Q1 in the US).
- **The vaccines will not allow damaged sectors to recover quickly:** in many services (tourism, air transport, catering,

leisure, culture, sports, etc.) lost output will not be recovered. Moreover, growth will not necessarily return to its pre-crisis trend in these sectors.

- **Vaccines will not make the virus disappear:** the epidemic is still far from being under control (in Europe and the US). Some social distancing measures are likely to remain in place until the vast majority of the population is vaccinated. Moreover, several unknowns remain (e.g., the duration of immunity and contagiousness of those vaccinated).
- **Vaccines would be ineffective** in case of virus mutation.
- **Vaccinations may be delayed.** Vaccination campaigns pose logistical challenges (in production, storage and delivery) in advanced economies and even more so in emerging economies.
- **Finally, vaccines will not cure economic ills! They won't prevent corporate defaults, nor will they cure debt nor inequality.** Global public and private debt has reached a new all-time high. Containing the increase in debt-to-GDP ratios will be a new challenge in the post-Covid period. Similarly, poverty and inequality have risen dramatically in the wake of the Covid-19 crisis and will not return to the starting point without a supportive policy.

For investors, this context is ambiguous

The medium to long-term horizon becomes clearer with vaccines. Yet short-term uncertainties remain: vaccines are not going to cure all the ills caused by the epidemic, and the current economic situation is deteriorating, particularly in the US. We believe that **implied volatility of US assets** is reflecting the positive shift in investor sentiment in the medium to long run but might not take short-term risks into account. On top of the ongoing virus related uncertainties, US elections were a focal point with active hedging across bonds and equities. The result was perceived as the best possible outcome for the markets, leading to a rally in risky assets and an unwinding of hedging positions. The high efficacy of the vaccines has provided an extra boost to sentiment and a collapse in implied volatility. **This offers an interesting feature for investors looking to play the cyclical rotation while limiting via hedging broader market exposures during the bumpy first half of 2021.**

Finalised on 26/11/2020

¹ *Modeling COVID-19 scenarios for the United States" (Nature medicine, October 2020)*

Amundi Research Center



Find out more about
Amundi publications
research-center.amundi.com

Emerging Private Equity
Money Markets Find Monetary
Foreign Top-down Bottom-up
Exchange Corporate Equities
Sovereign Bonds High Forecasts
ESG Fixed Income Yield Real Estate
Quant Investment Asset
Strategies Allocation

DISCLAIMER

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msibarra.com).

In the European Union, this document is only for the attention of "Professional" investors as defined in Directive 2004/39/EC dated 21 April 2004 on markets in financial instruments ("MIFID"), to investment services providers and any other professional of the financial industry, and as the case may be in each local regulations and, as far as the offering in Switzerland is concerned, a "Qualified Investor" within the meaning of the provisions of the Swiss Collective Investment Schemes Act of 23 June 2006 (CISA), the Swiss Collective Investment Schemes Ordinance of 22 November 2006 (CISO) and the FINMA's Circular 08/8 on Public Advertising under the Collective Investment Schemes legislation of 20 November 2008. In no event may this material be distributed in the European Union to non "Professional" investors as defined in the MIFID or in each local regulation, or in Switzerland to investors who do not comply with the definition of "qualified investors" as defined in the applicable legislation and regulation. This document is not intended for citizens or residents of the United States of America or to any "U.S. Person", as this term is defined in SEC Regulation S under the U.S. Securities Act of 1933. This document neither constitutes an offer to buy nor a solicitation to sell a product, and shall not be considered as an unlawful solicitation or an investment advice. Amundi accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material. Amundi can in no way be held responsible for any decision or investment made on the basis of information contained in this material. The information contained in this document is disclosed to you on a confidential basis and shall not be copied, reproduced, modified, translated or distributed without the prior written approval of Amundi, to any third person or entity in any country or jurisdiction which would subject Amundi or any of "the Funds", to any registration requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this material is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching applicable legal or regulatory requirements. The information contained in this document is deemed accurate as at the date of publication set out on the first page of this document. Data, opinions and estimates may be changed without notice.

You have the right to receive information about the personal information we hold on you. You can obtain a copy of the information we hold on you by sending an email to info@amundi.com. If you are concerned that any of the information we hold on you is incorrect, please contact us at info@amundi.com.

Document issued by Amundi, "société par actions simplifiée" - SAS with a capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GPO4000036 - Head office: 90 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com
Photo credit: ©MDelporte - iStock/Getty Images Plus - ClaudioVentrella

Chief editor

BLANQUÉ Pascal, Group Chief Investment Officer

Editor

DEFEND Monica, Global Head of Research

With Global Research contributors

AINOUZ Valentine, Deputy Head of Developed Markets Strategy Research, CFA

BELLAICHE Mickael, Fixed Income Strategist

BERARDI Alessia, Head of Emerging Markets Macro and Strategy Research

BERTONCINI Sergio, Senior Fixed Income Strategist

BLANCHET Pierre, Head of Investment Intelligence

BOROWSKI Didier, Head of Global Views

BRECHT David, Fixed Income Analyst, CFA

HUANG Claire, EM Macrostrategist

CESARINI Federico, Cross Asset Strategist

Deputy-Editors

BLANCHET Pierre, Head of Investment Intelligence

BOROWSKI Didier, Head of Global Views

DELBO' Debora, Global EM Senior Strategist

DROZDZIK Patryk, EM Economist

GEORGES Delphine, Fixed Income Strategist

HERVE Karine, EM Senior Economist

LEONARDI Michele, Cross Asset Analyst

PERRIER Tristan, Global Views Analyst

PORTELLI Lorenzo, Head of Cross Asset Research

USARDI Annalisa, Senior Economist, CFA

VARTANESYAN Sosi, EM Senior Economist

WANE Ibra, Senior Equity Strategist

With the Amundi Insights Unit contribution

BERTINO Claudia, Head of Amundi Investment Insights Unit

FIOROT Laura, Deputy Head of Amundi Investment Insights Unit

DHINGRA Ujjwal, Amundi Investment Insights Unit

PANELLI Francesca, Amundi Investment Insights Unit

Conception & production

BERGER Pia, Research

PONCET Benoit, Research