

Flash commentary

UBS Asset Management | **Vaccine breakthrough bolsters procyclical positions**

The global economic and public health outlook brightened materially with news that a leading COVID-19 vaccine candidate is effective in preventing more than 90% of infections. This development enhances visibility into the potential for patterns of spending and activity to normalize towards pre-pandemic trends, fostering comprehensive economic healing. We are more confident in a return to robust, broad-based earnings growth within the tactical investment horizon.

The announcement from Pfizer and BioNTech SE sets the stage for an emergency approval of a vaccine by year-end, in line with our expectations. The reported effectiveness of the vaccine exceeds expectations, with projected efficacy of around 70% for preliminary candidates. These results also bode well for the success of all other candidates, particularly those that use a similar development approach. An array of highly effective options would be positive for the administration of vaccines to the broad population and, as such, a swifter return to economic normality.

The speed with which economic activity can normalize is a function of the efficacy of the vaccine, how much can be produced, and its uptake. This news suggests that one of these major pillars has been solved, and the relatively high prevention rate could also help boost adoption, as well. This development fortifies our conviction that a broadly available vaccine will allow for herd immunity to be achieved in many advanced economies by Q3-2021.

News that this particular candidate appears to be successful is especially important, as it has the highest expected supply relative to peers. However, there is a note of caution on this front: the firm materially downgraded production estimates for both 2020 and 2021. This is a reminder that logistical concerns related to production, storage, and distribution are manifold and supply constraints could threaten to introduce delays that impede the normalization process. It is also unclear how long the vaccine might provide immunity.

In our view, we are well-positioned for this medical breakthrough. Our procyclical, risk-on bias includes a preference for US small caps relative to large caps, value relative to growth, a softer US dollar, and a steepening of the Treasury curve. We believe that all of these positions were poised to perform well in an early cycle environment, and are now expected to receive an additional catalyst for outperformance. We will closely monitor progress on

therapeutics, testing, and other vaccine candidates, which have the potential to further bolster the growth outlook and mitigate downside scenarios.

For investors, positive news on vaccine trials offers a better shield from the ongoing seasonal increase in COVID-19 cases across Europe, which could be a prelude to what awaits North America in the weeks to come. We anticipate that this news will increase the ability of investors to “look through” negative news pertaining to COVID-19 case growth in the near term.

Most importantly, this innovation likely reduces the left-tail risk that the development of an effective vaccine might remain elusive for a prolonged period. While we continue to live with COVID-19 through a difficult winter and beyond, we think that these vaccine results are the most concrete progress towards a durable remedy to the tragic public health and economic crisis.

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