There is rising concern over the spread of a new COVID-19 variant, which early signs suggest could be more effective in evading current vaccines. Risk assets fell as news of the new omicron variant broke.

Concern among investors has been partly driven by the large number of mutations—over 30—in the novel B.1.1.529 strain of the virus, which has been spreading in southern Africa.

These mutations result in a “dramatically different” spike protein than the ones that existing vaccines target, according to UK authorities. Anxiety over this development sent equities lower around the world at the end of last week.

The Chief Investment Office (CIO) shares the markets’ concern over the emergence of the new variant and will monitor developments closely. But, so far, we advise investors against jumping to conclusions based on small data samples with large margins of error.

1. **It is too early to determine whether the large number of mutations will translate into a more virulent and transmissible disease.** Much has been made of the large number of mutations—around 35. While some of these mutations have been associated with modest vaccine resistance in other variants, their combined impact has yet to be assessed. It will likely take several weeks for scientists to determine the susceptibility of the new variant to antibodies and vaccines. So far, conclusions are being based on just 100 patients, leading to a potentially wide margin for error. Some degree of vaccine (and antibody) evasion is likely, but it is unlikely to be total evasion. Antivirals will become available in early 2022, and as these do not work by targeting the spike protein, we find no reason to believe they will be ineffective against the new variant.

2. **Other COVID-19 strains that looked worrying failed to spread widely.** For example, the C.1.2 variant, which emerged earlier this year, which was also heavily mutated and was initially thought be around 15% more transmissible than Delta, now accounts for fewer than 5% of cases in South Africa.
3. The low vaccination rate in countries where the virus has been spreading makes drawing conclusions harder. At present, only 24% of the South African population is fully vaccinated, according to Our World in Data (OWID). Extrapolating from South Africa is also complicated by the presence of large numbers of immune-compromised people in the country’s population. So far too, infection rates in South Africa have also risen only modestly, based on data from OWID. The seven-day moving average of daily infections per million has climbed to around 17, up from around six at the start of November, but still well below the July peak of 330. It is also well below hotspots in Europe, such as Austria at 1,550 per million. It is too soon to say how much more transmissible this variant will be in a well-vaccinated population.

So, market volatility is a reminder of the value of being diversified across markets and sectors, rather than taking on excess risk. We advise against hasty shifts in investment strategy and recommend staying invested. We still favor adding exposure to more defensive areas, specifically healthcare, which has a beta to the market of around 0.8. An adequate exposure to alternatives can also be helpful during periods of high volatility, including in hedge funds, many of which can outperform when equity markets are falling. It is also worth noting that heightened risks from COVID-19 could lead to a slowing in the removal of central bank monetary accommodation.

CIO will be monitoring growth in cases of the new variant, its geographic prevalence, and severity of resulting disease while awaiting efficacy data from vaccine producers. Risks to our view include the mutation being highly vaccine and antibody resistant, that antiviral treatments prove ineffective, and that governments of major economies act with swifter and more restrictive measures that significantly impact GDP growth.

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Content is a product of the Chief Investment Office (CIO).