

On the Minds of Investors

January 2021

When will vaccines allow for a sustained economic recovery?

For months, the question on everyone's lips has been, 'When can we start getting back to normal?' The short answer is, 'When the vulnerable have been vaccinated and the healthcare systems are comfortably coping with Covid-19 cases'. The more complete answer is a little more complex. Protecting the vulnerable will facilitate the process of a sustainable reopening but caution will still be required until a broader group are vaccinated, and the timetable will differ around the world. Our base case for major developed economies is that the process of sustainable reopening begins in the spring, and in the latter months of the year we see a meaningful bounce in economic activity as pent-up demand is unleashed.

The charts in this report will be updated twice a week in our **tracker** for readers to follow the progress of the vaccine rollout.

Vaccinating the vulnerable should drastically reduce mortality and hospitalisations from Covid-19

Governments around the world are adopting strategies to vaccinate the most vulnerable first, which should reduce mortality from the virus but also ease the burden on healthcare services. This approach makes sense given Covid-19 causes a disproportionate level of deaths and hospitalisations among older cohorts. In the UK, there are nine million people aged over 70, accounting for 13% of the total population, but 84% of the total Covid-19 deaths and over 50% of total hospitalisations (**EXHIBIT 1**).

EXHIBIT 1: DEMOGRAPHICS AND COVID-19 IN THE UK

Age group	UK population	% share of population	% share of Covid-19 deaths*	% share of Covid-19 hospitalisations**
0-29	24,285,278	36%	0%	3%
30-49	17,314,460	26%	1%	11%
50-69	16,190,307	24%	15%	30%
70+	9,006,762	13%	84%	56%

Source: Office for National Statistics, British Medical Journal, J.P. Morgan Asset Management.

*Based on deaths in England and Wales where Covid-19 is mentioned on the death certificate.

**Based on an analysis of the first wave published in the British Medical Journal. Data as of 14 January 2021.

Throughout the Covid-19 pandemic we have seen how the health and economic crises have been inextricably linked. If vaccinating the vulnerable significantly reduces the number of new hospital admissions, then governments will feel more comfortable about relaxing restrictions, allowing economic activity to begin normalising.

AUTHOR



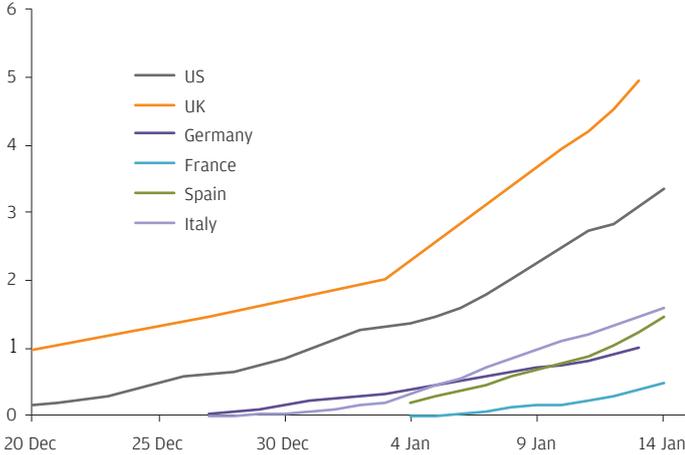
Ambrose Crofton
Global Market Strategist

The pace of vaccine rollout is key

At the time of writing, the UK and US have made solid starts in vaccinating their populations, while the major European economies are off to a slower start (**EXHIBIT 2**).

EXHIBIT 2: COVID-19 VACCINE ROLLOUT

Cumulative doses administered per 100 people



Source: Our World in Data, J.P. Morgan Asset Management. Data as of 14 January 2021.

The UK government has announced an ambitious plan to offer vaccinations to its top four priority groups - amounting to 15 million people - by 15 February. These groups include those over the age of 70, frontline workers and those that are clinically vulnerable. The time between first and second dose of vaccines administered in the UK has been extended to 12 weeks to allow as many people as possible to receive at least the first dose, which the government’s advisers view as the best way to reduce mortality and the strain on the health system.

How feasible is it to vaccinate such a large group of people in such a short space of time? In the 2019-20 flu season, the UK vaccinated over 14 million people over a five-month period. The UK health system already has significant experience in vaccinating millions, but it needs to do it around five times as fast as normal. Several mass vaccination centres are planned around the country to meet this ambition, with some vaccinating 24/7. The government has expressed confidence that this will provide sufficient distributive capacity to allow it to meet its goal, and that distribution needs will be met by the supply of approved vaccines, of which the UK now has three.

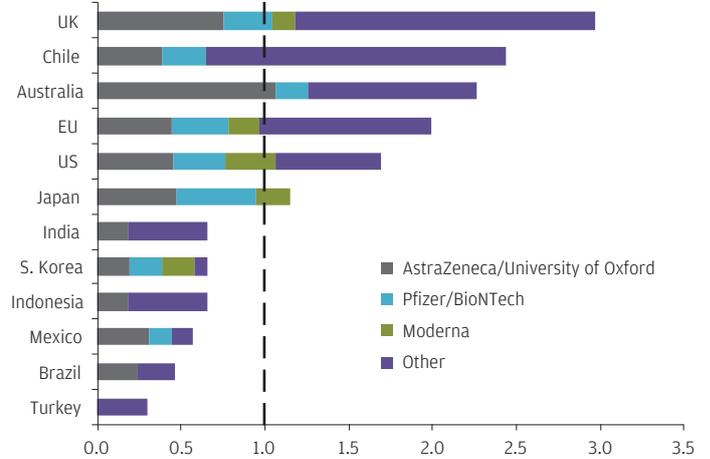
We think the target is broadly achievable. Whether or not it is achieved exactly to the day is primarily a political concern, but the proposition of having the majority of the UK’s vulnerable with some protection by the beginning of March ought to be a game-changer (as **EXHIBIT 1** suggests) and allow for a process of sustained economic recovery to begin in the second quarter.

The rollout in the US and EU is likely to continue to lag the UK, but both should still have vaccinated the most vulnerable in the first half of the year. Both the Pfizer and Moderna vaccines are approved in the US and the EU, and sufficient doses have been secured to vaccinate the vulnerable population.

The EU, in particular, will benefit considerably if its regulators approve the AstraZeneca/University of Oxford vaccine in the coming weeks, since it has ordered doses to cover more than 40% of its population and this vaccine is logistically easier to handle (**EXHIBIT 3**).

EXHIBIT 3: CONFIRMED ORDERS FOR VACCINATIONS PER HEAD OF POPULATION

Complete vaccination courses per head of population



Source: Duke Global Health Innovation Center, World Bank, J.P. Morgan Asset Management. This chart shows the number of complete vaccination courses that a given country has confirmed orders for. Data as of 9 January 2021.

The success of the three pioneering Covid vaccines will have a huge impact in taming the pandemic, but there are also many other vaccine candidates that could be approved in the coming months that would bolster the world’s supply. Novavax and Johnson & Johnson (J&J) are two of 20 vaccine candidates currently in phase III trials, and have large orders confirmed.

However, it is clear that the vaccine rollout will be unequal. The deep pockets of developed governments have allowed them to secure vaccinations to more than cover their populations. Lower-income emerging market countries have order books that fall short of their populations, giving them less room for error in their rollout strategies. As a result, many will have to rely on the COVAX scheme - a consortium set up by the World Health Organisation and others to ensure that all countries have access to Covid-19 vaccines - and can expect a slower return to normality. COVAX has large orders for the AstraZeneca/University of Oxford and J&J vaccines.

One part of the emerging world is less reliant on vaccines for its economic recovery: North Asia. Through effective testing, contact tracing and strict border controls, the region has been able to recover quickly without the help of vaccines. For investors in emerging markets, this disparate outlook calls for a selective approach.

We are optimistic on the path of vaccine rollout, but mindful of tail risks

The rollout of vaccines in the developed world should allow economies to recover sharply in the second half of the year as normality returns and consumers are finally free to unleash their pent-up savings. We expect that the UK and US will have vaccinated over half their populations in the first half of the year, and the EU will reach that milestone during the summer.

The strong rebound in developed market activity should be supportive of risk assets, and in particular stocks that stand to benefit the most from a rotation from the Covid winners to those that lost out from the pandemic. Europe, the UK and the value style stand out in this respect. The emerging markets could also perform well in this environment, driven by continued strong economic performance in Asia and a gradual decline in the US dollar.

Of course, there remain risks. We are less concerned about the vaccine timetable slipping for logistical reasons, and think that plans could even be accelerated. Governments are under tremendous pressure to at least keep up with their neighbouring counterparts. And given the fiscal cost of maintaining economic restrictions, no expense will be spared in driving the rollout.

Uncertainty around take-up is a hurdle for all countries, and surveys suggest a significant degree of scepticism for the Covid-19 vaccine in Europe. Experience in the UK suggests that as the vaccine rollout is proceeding, public confidence is growing, and many may feel increasingly confident of taking up the vaccine as time progresses.

The key risk is that the virus mutates to a new variant that makes the currently approved vaccines ineffective. There is also the risk that vaccine efficacy is lower than initially reported, either among the older population, or across the population from altering the time between first and second doses. Data from trials hasn't been completely comprehensive in these areas. Many of these risks could be addressed - and rather than

derailing the recovery completely, could just provide a setback while new formulations are found. However, we think it prudent for investors to maintain tail-risk protection such as through long-duration government bonds or dynamic fixed income and macro strategies.

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