



SPOTLIGHT | JANUARY 2021

VACCINES: ISRAEL AND THE UAE SHOW THE WAY FORWARD

Key points

- With vaccines to combat the global pandemic being rolled out beginning in late-December, Israel and the United Arab Emirates (UAE) have led the world in vaccinating their populations, having reached > 20% coverage by mid-January.
- In contrast, the UK and the United States have only managed to have 4-7% of their admittedly substantially larger populations vaccinated. Disappointingly, the largest countries in Europe – France, Germany, Italy and Spain – have all failed to reach the 2% threshold to date.
- At their current pace of vaccinations, both the UK and US could reach the 20% threshold by the end of the 1st quarter. While news of the vaccine has encouraged investors, early signs from both Israel and the UAE suggest that further vaccination progress and/or lockdowns are still needed to reverse the rapid case growth seen in late-2020. For continental Europe to reach the same threshold before year-end will require a substantial acceleration in vaccinations in the weeks ahead.
- So, while the vaccines may eventually provide sufficient cover for economies to ease mobility restrictions and remove the anchors weighing on consumer sentiment, even the rapid progress of Israel and the UAE to date appears to be insufficient to achieve either of these objectives.
- As a result, investors should capitalise upon the opportunity to restore the proactive risk management frameworks that worked well to navigate volatile markets in 2019 and 2020. Concurrently, investors can use market volatility to continue to add to 'barbell' positions balanced between transformation growth themes and quality cyclical opportunities.



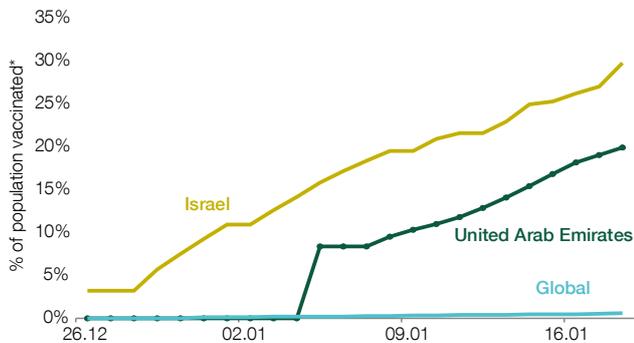
Israel and the UAE are leading the way with vaccines

With vaccines having been rolled out to combat the global pandemic in late-December, perhaps unsurprisingly, two wealthy, small nations – Israel and the UAE – are among the global leaders in deploying them to their domestic populations.

In the space of less than one month, both nations with close to eight million inhabitants, vaccinated over 20% of their respective populations.

Israel's cooperation with its chosen vaccine manufacturer, Pfizer-BioNTech essentially allowed the country to serve as a global pilot programme for rapid deployment of its vaccine. From this, the developers may learn lessons to draw upon as the vaccine is deployed to more populous nations in the months ahead.

Israel and the UAE lead the world in vaccinating their populations while global vaccination rates lag



Sources: Bloomberg Finance L.P., ourworldindata.org and UBP
* vaccinated = received 1st dose of approved vaccine

The UK and US are making progress, but Europe is lagging behind

The UK, burdened with the fast-spreading variant of the COVID-19 virus, has been accelerating its vaccine rollout since the start of the year. By mid-January, the nation was delivering 300,000-350,000 doses of the vaccine per day. Indeed, with a move to prepare 24/7 clinics to dispense the vaccine, the UK could achieve the pace seen in both Israel and the UAE of vaccinating 1% of its population per day in the weeks to come.

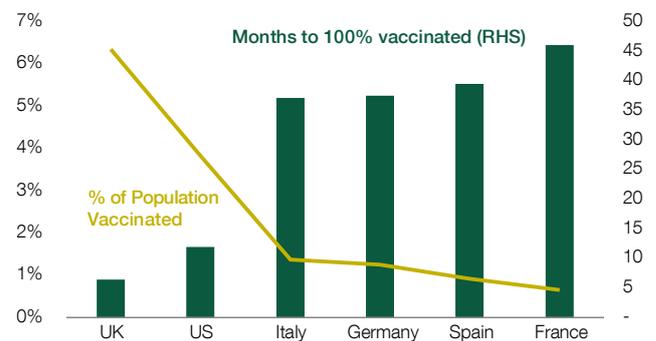
In the US, despite press reports of slow progress, vaccine deployment has steadily accelerated since the start of the year, reaching nearly one million doses per day by mid-January for a nation of over 330 million. With the Biden relief plan including new funding for vaccinations, this pace is likely to accelerate as well.

At their current pace of vaccination, the UK would be able to reach 100% vaccination by mid-year. While in the US, a year-end target for full vaccination is within reach at the current pace.

In contrast to the rapid rate seen in Israel and the UAE and the accelerating levels so far in the UK and the US, continental Europe's largest nations have been lagging meaningfully with few signs of substantial acceleration over recent weeks.

Indeed, although France, Germany, Italy and Spain all have populations comparable in size to the UK, individually, they are delivering vaccines at a rate of just 50,000-75,000 doses per day. This is in contrast to the nearly 300,000-350,000 currently being delivered in the UK. At this pace, it would take nearly three to four years for Europe's most populous nations to be fully vaccinated.

The UK and US are on target to reach full vaccination by year-end while continental Europe is lagging



Sources: Bloomberg Finance L.P., ourworldindata.org and UBP
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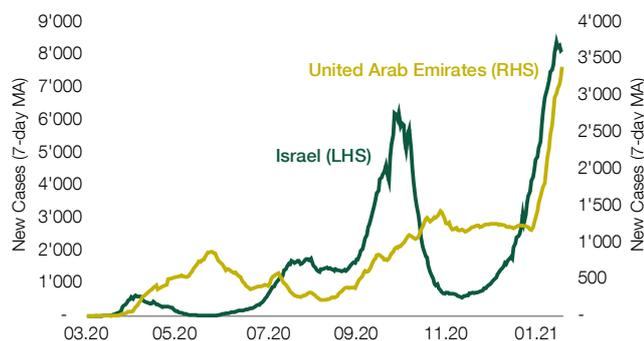
20% vaccination thresholds have yet to show substantial benefits in terms of headline new case growth

Despite the rapid progress made in both Israel and the UAE, the benefits in terms of slowing new case growth are as yet unclear.

In Israel, having reached the 20% threshold on 10 January, new case growth has continued to accelerate from 7,500 cases/day to 8,200/day. In the UAE, having only recently reached the 20% threshold, new cases still remain near all-time highs in excess of 3,000 new cases/day.

Admittedly, in Israel, the current new case count has slowed from its post-January 10 peak which may indicate that vaccine benefits are beginning to accrue to the overall population. Moreover, press reports suggest that infection rates among the elderly population (who were the priority for early vaccination) have begun to decline more meaningfully supporting the idea that continued vaccination should allow Israel and the UAE shortly thereafter to reach the yet unknown threshold where vaccinations begin visibly to slow new case growth within their economies.

Neither Israel nor the UAE have yet seen significant benefits at the 20% vaccination threshold



Sources: Bloomberg Finance L.P., ourworldindata.org and UBP
* vaccinated = received 1st dose of approved vaccine

Looking ahead, the rapid pace of vaccinations in Israel and the UAE should provide investors with a glimpse of the thresholds that may be necessary to contain new case growth and ease restrictions on travel and local movement.

For populations in the UK and the US which are still several months away from the 20% threshold seen in Israel and the UAE at their current rate of vaccination, this may provide a glimmer of hope.

However, it also seems to suggest that recent measures to tighten lockdowns and restrict travel in the UK and the potential for national measures in the US following the inauguration of its new president on January 20th will remain a key component of pandemic containment strategies in both countries until they start to replicate the relative vaccination success of Israel and the UAE in the weeks ahead.

For continental European economies and other economies around the world that have yet to accelerate vaccine distribution meaningfully, especially with the spectre of the faster-spreading UK and South African variants, this creates the prospect that lockdowns/travel restrictions may extend longer or even be more restrictive than currently until, at least, vaccination rates accelerate more dramatically.

Fiscal 'relief' to continue in the near term with further stimulus on the horizon

The potential for extended lockdowns have the potential to pressure the near-term recovery narrative with consumer sentiment and retail sales having succumbed in light of recent measures. However, expanded fiscal support initiatives for households (in the US) and businesses (in Europe) should continue to help bridge local economies until increased vaccine penetration and more stimulative policies emerge later in the year.

Indeed, the two-stage Biden programme outlined recently illustrates this approach. Beginning with a proposed USD 1.9 trillion package, the Biden plan focuses on restoring income

support for households as well as boosting pandemic testing/vaccine programmes.

This is expected to be followed by a multi-trillion-dollar stimulus programme focused on infrastructure spending and job creation in an attempt to transition the US economy into the post-pandemic era.

In Europe, where fiscal support had been restored with late-2020 lockdown measures, this should serve to support activity until the EU Recovery Fund makes its way through national parliaments before implementation later this year.

In the meantime, investors should prepare for the potential for near-term turbulence should vaccine rollouts continue to struggle while at the same time positioning portfolios for the growth-oriented policies set to emerge in the months ahead.

Restoring asymmetric risk-reward to portfolios...

With markets having largely priced in the prospect of vaccine-related and government spending driven-recovery, investors are once again being offered an opportunity to restore protection in portfolios against near-term volatility associated with the uneven vaccine rollouts around the world.

With US Treasury yields having breached the upper bound of the post-pandemic real interest rate range, we have reintroduced long-dated US government bonds for the first time since we exited our full positions near the depth of the crisis in April, 2020. While inflation-adjusted yields remain negative (and should remain negative for the foreseeable future), the higher nominal yields have restored a measure of protection for multi-asset investors should risks to growth emerge.

More importantly, with volatility having returned close to levels last seen in February, 2020 option protection has once again become attractive to restore the risk-return asymmetry that helped us navigate volatile markets effectively in both 2019 and 2020.

As in 2019 and 2020, a proactive and dynamic risk management framework will allow investors not only to protect against near-term uncertainty but more importantly, in a low return bond world, to stay engaged in longer-cycle transformational themes within more risky asset allocations.

...while opportunistically adding to quality cyclical exposure

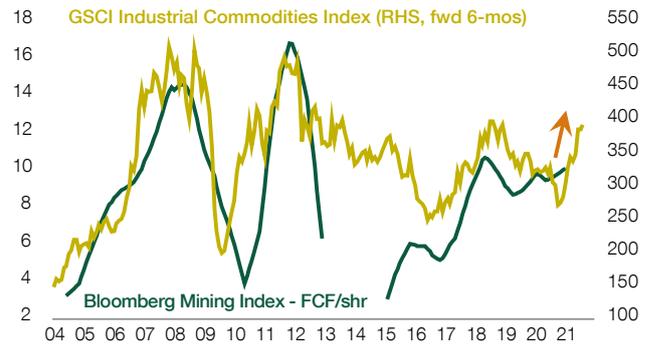
Indeed, should volatility re-emerge once again, this should provide an opportunity for investors to continue to reposition portfolios in favour of the cyclical recovery narrative that should play out in 2021.

We expect that transformational quality, growth narratives should continue to deliver earnings as the foundations of the global economies continue to shift in the post-pandemic era.

With valuation differentials wide and recovery driven earnings growth matching and in some cases exceeding what we see in traditional growth-oriented sectors (such as technology and healthcare), investors should also seek to gain exposure to quality cyclical themes that capitalise both upon the recovery of the global economy. The global mining sector as well as quality industrial companies which are driving the changes needed to reposition for the 21st century present such opportunities.

Indeed, global miners, such as those with exposure to copper, nickel and silver as well as other specialty metals are traditional beneficiaries of infrastructure spending. However they should likewise benefit from the green transformation imbedded in the coming infrastructure spending and climate change initiatives of major economies around the world. The combination should spur an upcycle in metals prices creating opportunities for increased dividends and capital returns on, to a large extent, already unleveraged balance sheets.

Global miners offer high quality cyclical exposure to both economic recovery and transformation



Sources: GSCI, Bloomberg Finance L.P. and UBP

Authors



Michaël Lok

Group Chief Investment Officer (CIO) and Co-CEO Asset Management

michael.lok@ubp.ch



Patrice Gautry

Chief Economist

patrice.gautry@ubp.ch



Norman Villamin

Chief Investment Officer (CIO) Wealth Management and Head of Asset Allocation

norman.villamin@ubp.ch



Yves Cortellini

Deputy Head of Asset Allocation

yves.cortellini@ubp.ch

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