

MARKET SIGHT LINES



Fighting for Herd Immunity

By Michael O'Keeffe, *Chief Investment Officer*



We started 2021 with a positive outlook anchored on government support of the recovery from the pandemic and vaccinations that would bring us to herd immunity. As illustrated with past viral outbreaks, a pandemic (infection spreading across a whole country or the world) typically becomes endemic (infection maintained at a baseline level) when the protected population hits 60% to 70%. So that has been our target. But with the delta variant, a highly contagious strain of coronavirus, we're seeing aggressive spread of the virus, even in areas that have reached 60% to 70% immunity. In this week's Sight|Lines, we'll review how we're fighting for herd immunity and how our recovery is going given the impact of the delta variant.

Are Vaccinations Working?

We see lots of stories in the news about breakthrough cases, stoking worries among the vaccinated. Studies show that vaccines work against delta. And while the exact accuracy of reporting can be debated, let's look at some numbers as of the end of July.¹ Of the 164 million people who are fully vaccinated, around 125,000 (0.08%) have tested positive for the virus, about 6,500 (0.004%) have been hospitalized, and about 1,600 (0.001%) have died. But this tells us that the vaccines are working for 99.9% of vaccinated. We'll get more and better data as tracking continues and improves, but vaccines certainly appear to be working.

Vaccination Progress

Let's start with vaccination progress. In the U.S., about 58% of the population has received at least one shot, and 50% are fully vaccinated. When you then include those with natural immunity from having had the virus, we are likely above the 70% level nationwide. But consider the geographic variability of these results. Some of the highest vaccination rates in the U.S. include Vermont (68%), Massachusetts (64%), and Maine (63%). And in those states, while we're seeing some increase in cases attributed to the delta variant, both hospitalizations and deaths remain under control. Now some of the lowest vaccination rates include Alabama (34%), Mississippi (35%), and Arkansas (37%). In these states, the virus is spreading more quickly, with the seven-day moving average of daily new cases up about 1,000% over the last month. But even in these states, hospitalizations and mortality are not growing nearly as quickly.

Another interesting pattern: The increase in spread in less vaccinated areas is causing a kind of "vaccine panic," with the pace of vaccinations up about 30% over the last two weeks in the 27 least-vaccinated states. And more generally, the pace of vaccinations is up in 48 of 50 states over that same period. The seven-day moving average for daily doses administered at the national level is up 27% compared to two weeks ago.

Fighting the Spread

Government officials are taking some actions to slow the spread of the virus. In late July the CDC issued updated guidelines that include asking even vaccinated people to wear masks in public indoor settings. The CDC also recommends universal indoor masking at schools – all teachers, staff, students, and visitors – regardless of vaccination status. San Francisco and six other Bay Area counties have reinstated a mask mandate for all indoor public settings.

And while New York City Mayor Bill de Blasio is encouraging people to wear masks indoors, the city has not yet reissued a mask mandate. But New York City did take a big step, requiring proof of vaccination for indoor dining and gyms. Facebook and Google are requiring employees to be vaccinated to come back to the office, and companies like Walmart and Disney are requiring some employees to be vaccinated. All of this is designed to fight the spread of the virus.

Measuring the Recovery

Despite these challenges and headwinds, the recovery continues. About 80% of S&P 500 companies have reported second quarter earnings so far, and 89% have been positive surprises, beating consensus forecasted earnings by a median of 18%. But what is also telling are comments from company leaders. Here are a few examples from recent company earnings calls:²

“We mentioned on our prior call that we expected business to recover to about 50% by the end of the year. But with recent trends, we expect it will reach sustained 50% or better ahead of that.”

“Turning to...trends, our...volumes have been very strong given the circumstances and are clearly improving...45% ahead of...the first quarter...a clear demonstration of the pent-up demand...”

“Of note in the U.S., we are seeing consumer airline spend improve significantly...back to pre-pandemic levels...it is clear people want to travel...”

“As the quarter progressed people were at home less as restrictions and lockdowns eased in some of our largest geographies, including the U.S. and much of Europe...”

Earnings continue to recover, better than expected, and the sentiment within corporate leadership seems positive. We also continue to see positive, above-trend GDP growth and improved employment. The recovery continues.

Conclusion

We’re fighting to get to herd immunity, but we’re not there yet. Governments are adjusting policies to slow the spread. Many companies are taking action, requiring vaccinations for people returning to work. And the recovery continues. Of course, we will continue to track COVID data, public and private actions to fight the spread, and the reopening/recovery going forward.

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¹ Axios

² Earnings calls for Alaska Airlines, Carnival Cruises, MasterCard, Amazon

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