WILSONS

# Markets Getting Another COVID Test

Our weekly view on asset allocation.

29 November 2021

# Europe Enters its 4th Wave

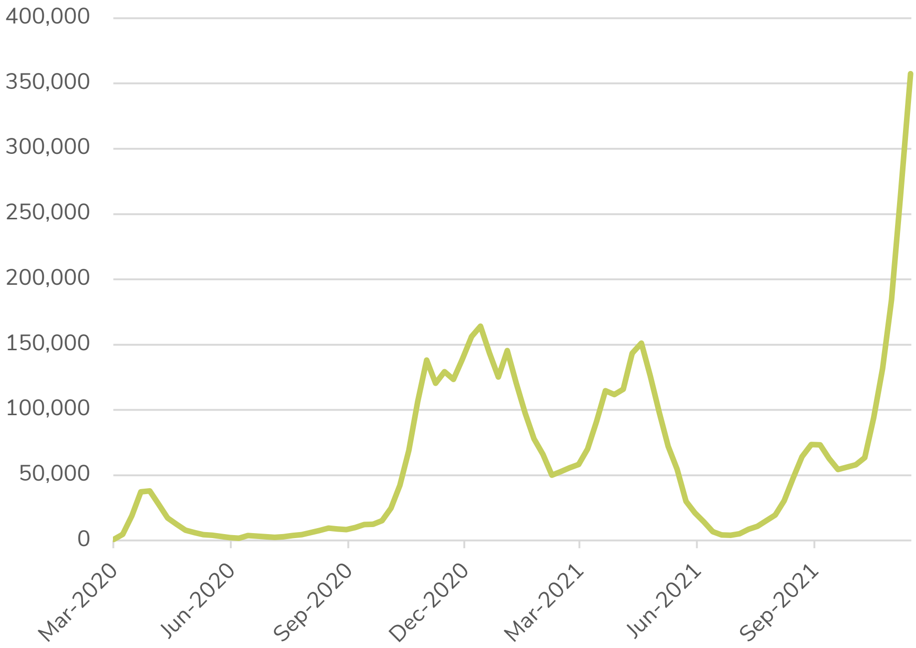
Europe appears to be entering its 4th wave of the COVID pandemic with a surge in case numbers across much of continental Europe.

Recent attention has focused on Austria, which has enacted a 20-day nationwide lockdown (and a compulsory vaccination mandate). Austria's vaccination rate of 65% is lower than the European average, but even in the Netherlands - where 74% of people are fully vaccinated (above the European average) - there has been a surge in new cases and some partial lockdowns instigated.

Focus is now turning to European heavyweight Germany, where cases are more than double the previous January peak. Investors are concerned over the potential economic impact of a German lockdown, though restrictions have been relatively minor at this stage. Crucially for Germany, while the current case count is at 217% of the prior peak, hospitalisations are only at 40% of the previous peak. We believe hospitalisations are a more important statistic to monitor than daily or weekly case counts.

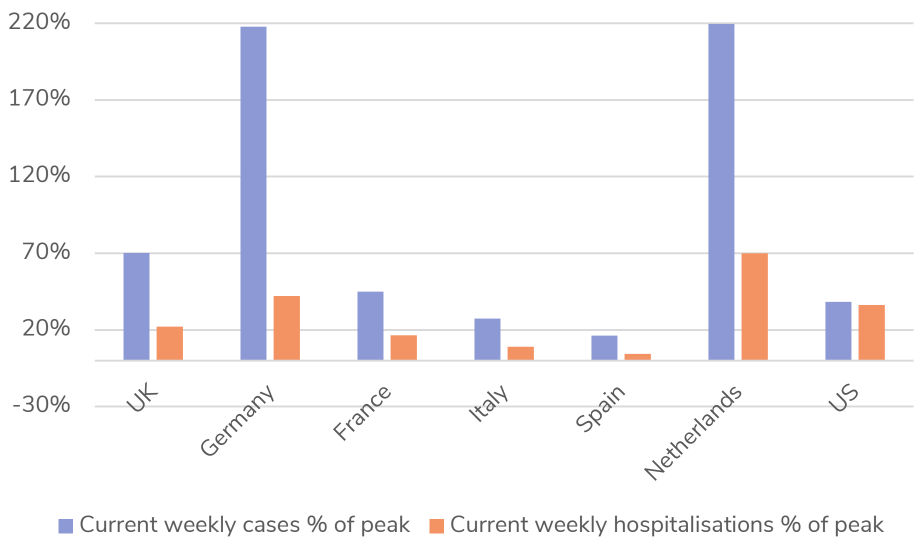
Looking across Europe, it appears that in countries where case counts are higher than the prior peak, the median hospitalisation rate is 35% of the previous peak. For countries where the case count is less than the prior peak, the hospitalisation median is only 19% of the previous peak. We take confidence in hospitalisation numbers being well below previous peaks, and most European health systems should be able to cope.

**Exhibit 1: The weekly infection rate in Germany has surged past previous peaks**




Source: Refinitiv, Wilsons.

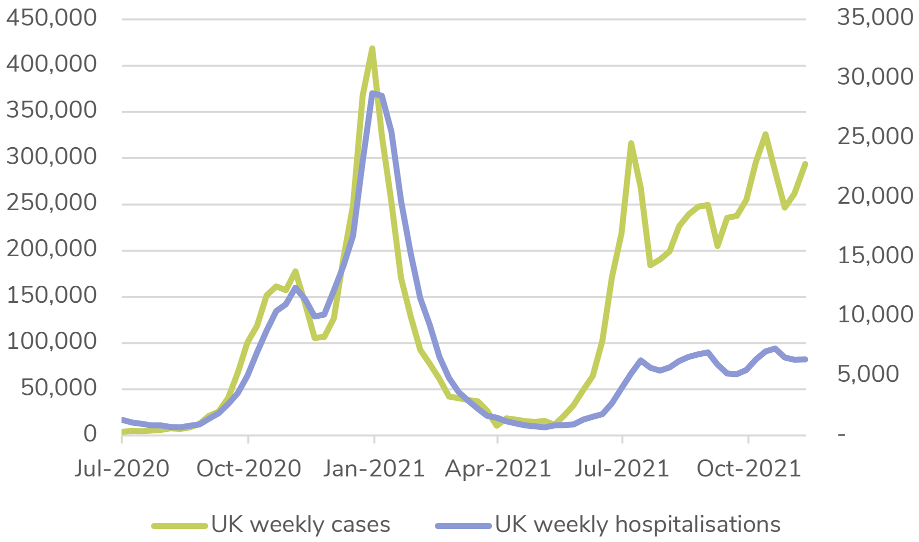
**Exhibit 2: European hospitalisations remain well down relative to the period of peak cases**




Source: Refinitiv, Wilsons.

The UK is an interesting case study in that it has been dealing with elevated case numbers for some time (cases are at 75% of the January peak). However, hospitalisations are only at 22% of the January peak, and the weekly death rate is still running at only 12% of the previous peak.

**Exhibit 3: UK hospitalisations have decoupled from the case count**




Source: Refinitiv, Wilsons.

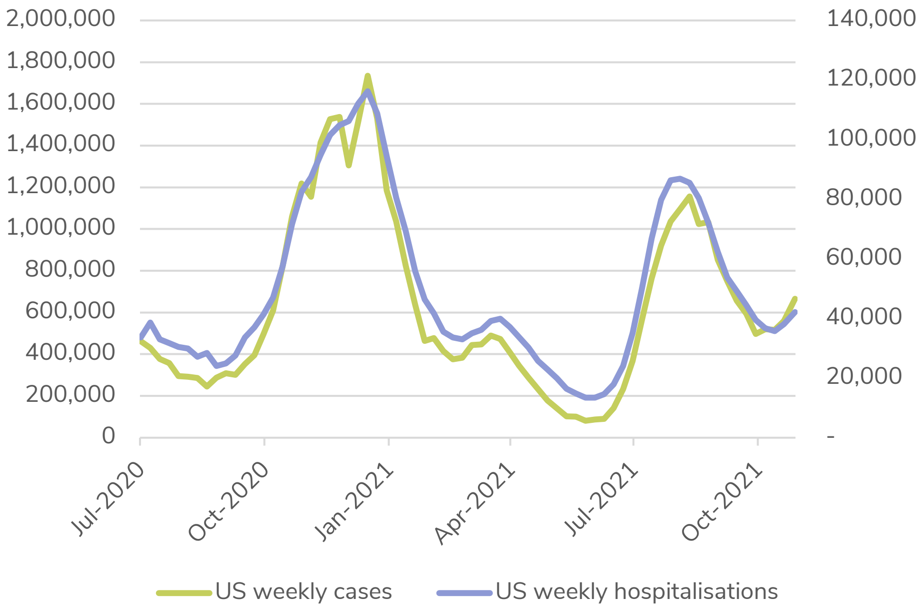
## US Case Numbers Also Likely to see a Winter Surge

Across the Atlantic in the US, case numbers have also begun to pick up again, though the virus is not seen as a major headwind for markets, with the inflation and monetary policy outlook still the focal point for investors. As a result, US bond yields have started to rise again over the past couple of weeks.

We do believe a winter pick-up in US case numbers is inevitable. The acceleration in Europe highlights the seasonal element of COVID (as the northern hemisphere heads into winter) and the importance of increasing vaccine penetration and booster shots. The US is still a long way from best practice from this perspective. It is somewhat cautionary that the decoupling of the link between hospitalisations and case numbers is not as strong in the US.

Perversely, a significant pick up in US case numbers in coming weeks could act to quell market fears about economic overheating and tighter monetary policy. US activity may slow at the margin over the winter, as it did in the third quarter; however, political appetite for meaningful lockdown appears close to zero, so any economic fallout should be relatively limited.

**Exhibit 4: US hospitalisations have not significantly decoupled from the case count**




Source: Refinitiv, Wilsons.

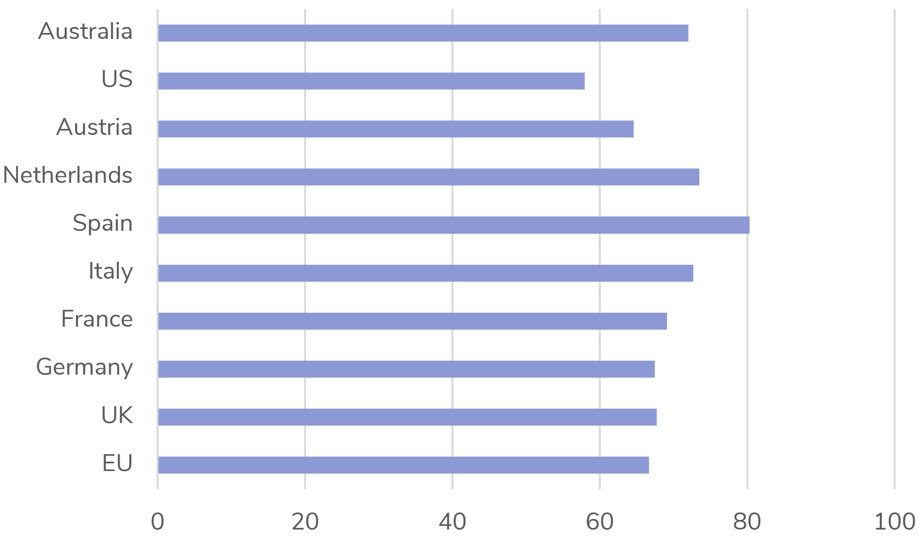
We doubt the market will panic over a fresh COVID wave even if we do indeed see a large rise in US cases over the winter months. Global equities may mark time as they digest this likely northern hemisphere winter acceleration in cases and hospitalisations. Investors will also have to negotiate what are likely to be ongoing high US inflation readings over the next couple of months at least. So perhaps the usual December/January rally is looking a little less likely this year.

# Australia Looks in Better Relative Shape

Australia appears better placed going into our summer with a significantly higher vaccination rate than either the US or Europe. Our booster program is also now well underway. The piecemeal booster programs in Europe and the US have likely made them more vulnerable to a 4th wave as they enter their winter, although this is now being addressed.

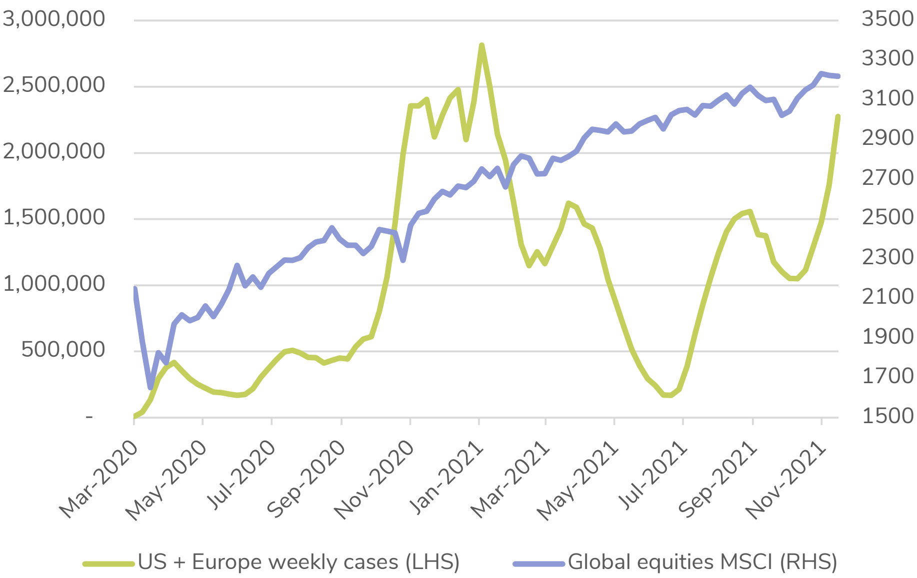
While Australia seems better placed from the perspectives of seasonality, vaccination coverage and the booster rollout, the national psyche will still have to deal with the inevitable lift in national case numbers as economic reopening progresses over the next few months. Unlike Europe and the US, high national case numbers have not been a way of life for Australia since the start of the pandemic. Whether the onset of higher case numbers changes or dulls consumer behaviour is uncertain. On balance, we still think the focus should turn to hospitalisations and deaths as the key measures of success, and thus the next wave in Australia should stay well contained on these metrics. We remain bullish on the outlook for Australian economic growth in 2022, given a combination of good virus control, economic reopening, and the release of pent-up demand.

**Exhibit 5: Australia's (2 dose) total population % vaccination rate now compares favourably with the US and Europe**




Source: Refinitiv, Wilsons.

**Exhibit 6: Post the initial March 2020 correction COVID waves have had minimal impact on the global equity rally**




Source: Refinitiv, Wilsons.

# COVID Concerns Front of Mind but Should Fade through 2022

All in all, vaccines are largely holding the line against the most severe health impacts of the pandemic, and aggregate government mobility restrictions are unlikely to shift significantly. Recent significant trial success with new anti-viral drugs from Pfizer and Merck also adds to the case that the pandemic fades as an influence over the coming 6-12 months.

This suggests the global economic recovery will continue to progress in 2022 despite some near-term angst around a fresh COVID wave in Europe and the US.

Importantly, each successive wave has resulted in less economic and market impact. While we could see some rotation away from cyclicals again, we believe this pattern of market resilience to the pandemic will continue to hold true. Australia seems well placed to weather our own version of the next wave, albeit we will still have to digest higher case numbers in coming months.

As we move into 2022 investment markets are likely to be constrained by both the COVID backdrop and the outlook for inflation. We see inflation as the bigger of these two risks from a market perspective; however, we still think it ebbs over the coming year. We see some risk that the markets become impatient with the stickiness of US inflation over the coming months, leading to a tactical sell-off.

Our 12-month view remains positive, with both the pandemic and inflation likely to fade as headwinds, so 2022 should still be another solid year for equities.

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**Wilsons contact**

david.cassidy@wilsonsadvisory.com.au | +61 2 8247 3149

john.lockton@wilsonsadvisory.com.au | +61 2 8247 3118

rob.crookston@wilsonsadvisory.com.au | +61 2 8247 3101

www.wilsonsadvisory.com.au