



## ECONOMIC SITUATION AND STRATEGY

January 14, 2022

### **2022: The year the corona pandemic came to an end?**

For almost exactly two years, corona has kept the world on tenterhooks. This applies to politics, social life, but also to the capital markets. A large part of the price movements on the stock and bond markets was actually driven by the pandemic. Initially, there was a significant slump on the stock markets in the wake of the first major wave of the pandemic, which then culminated in a very rapid V-shaped recovery.

The cause of the extremely rapid and significant recovery was the extraordinarily expansive monetary and fiscal policy in response to the pandemic. The late effects of this ultra-loose monetary and fiscal policy continue to leave their mark on the capital markets to this day.

The huge outperformance of Growth stocks was to a significant extent the result of this policy, as the anchoring of interest rates close to zero contributed to a massive increase in the present value of profits - with the consequence that especially companies with high expected profit growth rates were able to benefit. We now believe that this market phase, in which the corona pandemic influenced the markets in many ways, is slowly coming to an end. We see three main reasons for this:

#### **1. The vaccines are effective!**

It is somewhat sad that it has to be mentioned over and over again and that we almost have to defend ourselves to certain groups for this statement, but the availability of vaccines has a significant positive impact on mortality. Even though there has undoubtedly been some potential for disappointment in that, particularly with the omicron variant, infection is less well prevented by vaccination, protection against serious illness and death remains.

Those who, for whatever reason, do not trust medical studies on this topic could also approach this issue with generally available statistics and reach very clear results. For example, a few weeks ago at Warburg (before the Omicron variant became relevant or dominant in many countries) we did a study on the extent to which the decline in mortality in the context of Covid in a large number of countries was a function of the level of vaccination rates. The reasoning behind this was as follows: Better treatment options have tended to cause mortality to fall worldwide, and in addition, various statistical artifacts also tend to cause mortality to fall - these include, for example, better availability of tests compared with the initial phase of the pandemic. Therefore, a decline in mortality is not in itself evidence of well-functioning vaccination. However, if the country-specific decline in mortality depends to a narrow and statistically significant extent on the respective vaccination rate, the proof would be provided that vaccinations do indeed have the desired effect. And this with a global data material, in which, so to speak, the sample is the population.

Our results were more than clear: the relationship between vaccination rates and mortality decline was unambiguous, and even the few "outliers" could be well explained. For example, Russia had a too high mortality rate in the face of a not entirely bad vaccination rate. However, considering that the vaccine used in Russia has a poor effectiveness, this outlier can be explained very well and even supports the overall message of the study. There is no question that the scare of corona has been massively reduced by vaccination, and further improved vaccines will lead to more successes.

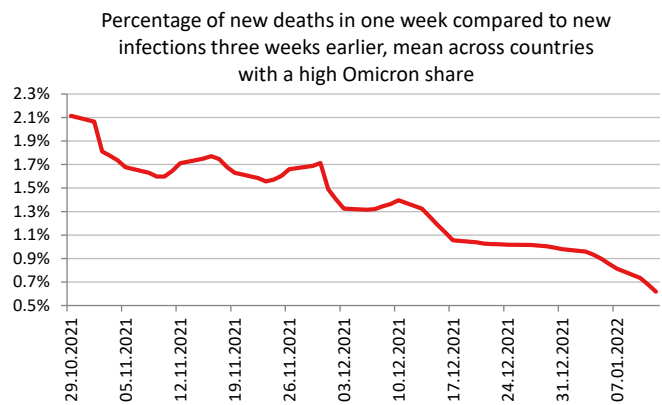
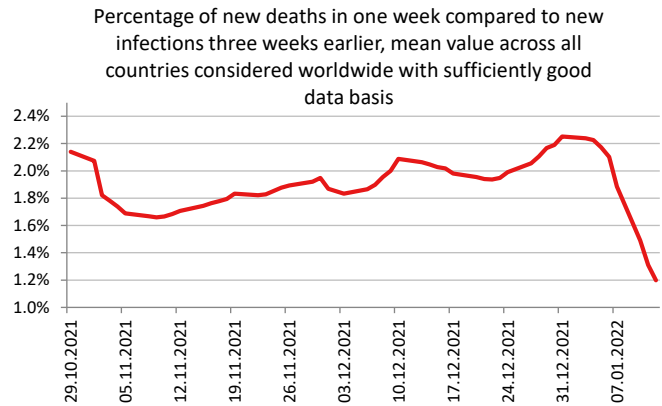
## 2. New medications are working!

For a long time, the world has been waiting for Covid medicines that can be administered to patients who are already ill and then have a significant positive impact on their condition. Within the next few months, several drugs will finally hit the market that seem to deliver on this promise for the first time. This gives additional hope to people who cannot (or do not want to) be vaccinated. And more protection for people with severe pre-existing conditions and even for those who have already been vaccinated. There is a strong argument that these medications have the potential to become a game changer in the pandemic.

## 3. Omicron is relatively harmless!

Of course, we do not want to deny at this point that especially for unvaccinated people, an Omicron infection can lead to very severe symptoms and even death. Nevertheless, many clinical studies show that this new variant is extremely contagious, but also less dangerous. This is now also quite evident from publicly available statistics. Since the beginning of the pandemic, we have been closely monitoring the development of mortality in the context of Covid. About 5.5 million people have officially died from Covid until today. With an official total of 317 million infections, this translates into a mortality rate of 1.75%. Of course, this value is not set in stone and fluctuates over time due to various effects. However, it is striking that mortality has been showing a significant downward trend for several weeks. This may be interpreted as a first indication for less critical symptoms of omicron. We investigated this observation more thoroughly by performing the same calculation in a second step only for countries in which omicron has been the dominant variant for a longer period of time. The result is striking: In these countries, mortality has fallen within a very short time to one third of the level before the omicron variant appeared! Even if this figure may be overstated due to some statistical artifacts, there can be no doubt that omicron is another game changer in this pandemic.

Together with vaccinations and medicines, the pandemic is thus losing its horror to such an extent that at least rationally acting capital markets are likely to turn their focus completely to other issues.



This sounds almost too good to be true, so the question arises whether we may have overlooked something in this analysis. And indeed, there is at least one "white elephant" in the room that should not be completely negated. In China, there is still virtually no baseline immunity in the population, and the Chinese vaccines have not been conspicuous for their impressive effectiveness. Thus, in the coming months, we can anticipate an Omicron wave in China as well. Renewed and very far-reaching lockdowns can then be expected, which will hurt the global economy again. Nevertheless, this will be more of a temporary impact. So we stand by our view that there are many good reasons to believe that 2022 will be remembered in the history books as the year in which the Corona pandemic came to an end.

## Market data

Stock marketes	As of	Change versus				
	14.01.2022 08:42	03.01.2022 -1 week	07.12.2021 -1 month	07.10.2021 -3 months	07.01.2021 -1 year	31.12.2021 YTD
Dow Jones	36114	-1,3%	1,1%	3,9%	16,3%	-0,6%
S&P 500	4659	-2,9%	-0,6%	5,9%	22,5%	-2,2%
Nasdaq	14807	-6,5%	-5,6%	1,0%	13,3%	-5,4%
DAX	16032	0,1%	1,4%	5,1%	14,8%	0,9%
MDAX	34793	-2,0%	-0,1%	3,8%	11,4%	-0,9%
TecDAX	3593	-8,5%	-7,7%	-0,7%	10,5%	-8,3%
EuroStoxx 50	4316	-0,4%	0,9%	5,3%	19,1%	0,4%
Stoxx 50	3827	-0,2%	2,1%	7,8%	20,6%	0,2%
SMI (Swiss Market Index)	12620	-2,5%	0,9%	7,3%	17,1%	-2,0%
Nikkei 225	28124	-2,3%	-1,2%	1,6%	2,3%	-2,3%
Brasilien BOVESPA	105530	1,5%	-1,9%	-4,6%	-13,8%	0,7%
Russland RTS	1538	-5,2%	-6,6%	-17,1%	7,0%	-3,6%
Indien BSE 30	61056	3,2%	5,9%	2,3%	27,0%	4,8%
China CSI 300	4727	-4,3%	-4,0%	-2,9%	-14,3%	-4,3%
MSCI Welt (in €)	3182	-2,8%	-1,9%	5,3%	24,6%	-2,8%
MSCI Emerging Markets (in €)	1263	1,4%	0,4%	1,6%	2,3%	1,3%
<b>Bond markets</b>						
Bund-Future	170,71	-3	-182	100	-654	-66
Bobl-Future	133,00	-9	-234	-200	-212	-24
Schatz-Future	112,00	-2	-30	-24	-27	-3
3 Monats Euribor	-0,56	1	1	0	-1	3
3M Euribor Future, Dec 2017	-0,31	1	4	23	25	0
3 Monats \$ Libor	0,24	3	4	11	1	3
Fed Funds Future, Dec 2017	0,92	13	21	85	84	0
10 year US Treasuries	1,71	8	25	14	64	21
10 year Bunds	-0,10	2	27	8	44	8
10 year JGB	0,14	7	9	8	12	7
10 year Swiss Government	-0,05	5	25	9	44	8
US Treas 10Y Performance	681,81	-1,2%	-2,2%	-1,2%	-3,4%	-2,4%
Bund 10Y Performance	655,78	-0,5%	-2,9%	-1,1%	-3,9%	-1,0%
REX Performance Index	488,09	-0,5%	-1,5%	-0,7%	-2,3%	-0,5%
US mortgage rate	0,00	0	0	0	0	0
IBoxx AA, €	0,54	3	20	20	50	6
IBoxx BBB, €	0,95	3	20	24	43	7
ML US High Yield	5,10	17	17	38	15	20
Convertible Bonds, Exane 25	8157	0,0%	-0,6%	-0,4%	-2,7%	-0,4%
<b>Commodities</b>						
MG Base Metal Index	464,76	0,8%	4,3%	5,8%	26,3%	0,8%
Crude oil Brent	84,74	7,3%	12,3%	2,7%	55,6%	8,1%
Gold	1827,04	1,5%	2,5%	3,9%	-4,7%	0,3%
Silver	22,30	-2,4%	-1,3%	-1,6%	-17,8%	-4,2%
Aluminium	2904,25	3,5%	10,1%	-0,9%	43,2%	3,5%
Copper	9692,00	-0,5%	0,8%	4,3%	18,7%	-0,5%
Iron ore	127,84	6,2%	18,3%	8,2%	-24,5%	13,6%
Freight rates Baltic Dry Index	1873	-15,5%	-44,1%	-66,8%	29,4%	-15,5%
<b>Currencies</b>						
EUR/ USD	1,1468	1,0%	1,9%	-0,8%	-6,6%	1,3%
EUR/ GBP	0,8357	-0,5%	-1,7%	-1,5%	-7,7%	-0,5%
EUR/ JPY	130,44	-0,1%	2,0%	1,3%	2,6%	0,0%
EUR/ CHF	1,0435	0,6%	0,2%	-2,6%	-3,7%	1,0%
USD/ CNY	6,3493	-0,2%	-0,3%	-1,6%	-2,0%	-0,1%
USD/ JPY	115,57	0,2%	1,7%	3,5%	11,3%	0,4%
USD/ GBP	0,73	-2,0%	-3,5%	-0,7%	-1,3%	-1,3%

Source: Refinitiv Datastream

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