MAKING SENSE OF *THIS* WORLD *9 November 2020*

14-Day Case Notification Rate Per 100 000 Inhabitants, Updated 5 November 2020

R&R Weekly Column
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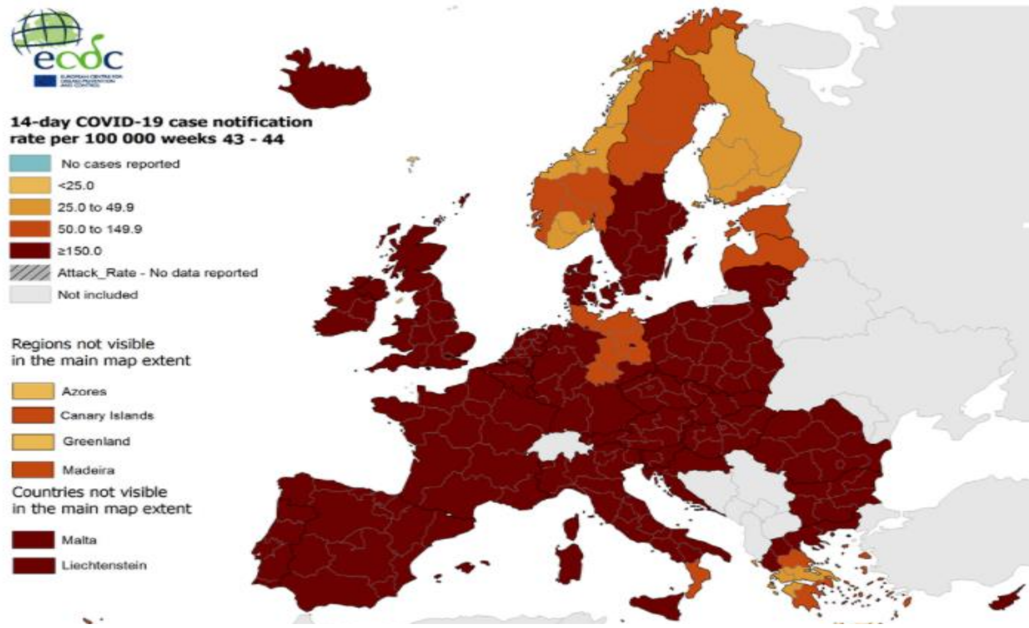

Many Countries Return to Lockdown in Response to Questionable Pandemic Metrics

As we discussed in our recent publications, a number of countries, especially in Europe, have decided to enter a new phase of general lockdowns. France, for example, after adopting a curfew policy that proved ineffective, started to implement a general lockdown from October 30 to December 1st. Germany, which during the first phase of the pandemic witnessed an infection rate markedly lower than other countries (the result of more effective testing measures and a larger number of intensive care units) is also introducing a sort of semi-lockdown now, from November 2 to November 30. Italy is adopting a three-tiered restriction system which might easily morph into a national lockdown in coming days. The UK, which adopted a tiering system earlier on, switched to full lockdown on November 5, which for now is set to last until December 2nd. Other countries, such as Greece, Belgium and Spain, are adopting similar measures.

These generalised lockdowns have been decided upon as the second wave of the pandemic hit following the reprieve that occurred during the summer (as we discussed in our recent column). Studies have shown that this second wave originated from a virus mutation that occurred in Spain during the summer. As Spain – together with France – decided to adopt an open-door policy during the summer holidays in order to save the tourism season, this mutated version of the virus has spread across Europe this autumn. Most governments seem to be flirting with the idea that a full lockdown in November will allow countries to reopen for Christmas, but this strategy seems self-defeating in the light of the Spanish example above: any sacrifices made during these weeks in November would likely be nullified by a reopening of shops and a restarting of domestic and international flights for the holiday season.

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The question is on what basis these new generalised closures were decided. Most governments got scared, and seemed frankly unprepared to this second wave, as the number of new cases soared in recent weeks (see map above). Some governments decided to adopt new lockdowns after a certain threshold of new daily cases was reached (a threshold that would purportedly translate into a relatively predictable percentage of hospitalisations, intubations and – eventually – deaths).

But these metrics seem highly questionable. In a pandemic generated by an airborne virus, to reach "heard immunity" it is obvious that the number of cases will have to increase. Over a relatively short period of time, a vast proportion of the population will in theory have to get infected (even without necessarily being symptomatic) in order for herd immunity to be achieved. For the same reason, even the apparently more sophisticated metric of the percentage of positive cases as a share of the overall number of tests (a metric which should control for the increase in the number of tests), appears to be wrong. Over time, as we reach heard immunity, that percentage will have to increase towards 70-80% without necessarily being a cause for alarm.

In that case, what metrics should actually be used? Well, first of all, in order to get a sense of the speed at which the virus is spreading, governments should compare the actual rate of infection with the theoretical rate of infection as calculated by epidemiologists. A natural progression of the virus' spread should not lead to generalised closures of the economy, whereas a faster-than-expected spreading should prompt the adoption of increasingly severe restrictions. The second metrics should be based on the hospitalisation rate (and within it, the intubation rate), so as to make sure health systems are not overwhelmed. This is because the unfortunate statistic of Covid is that only 50% of those entering intensive care actually make it out alive (rendering intubation effectively a coin toss). But again, the solution to this problem is building more intensive care units (ICUs) and adopting more effective treatments, not adopting new lockdowns. Most governments did not increase their ICU capacity between the first and the second waves of the virus, in spite of the fact that the coming of the second wave was highly predictable.

In fact, it seems anachronistic that social distancing, a medieval solution against pandemics, remains today the most effective way of stopping the virus, in the era of massive technological and medical advancement. The case of Donald Trump may serve as an example. He was hospitalised and then released within 3-4 days, after receiving innovative (indeed, almost experimental) cures, including a mix of *remdesivir*, an antiviral drug, with polyclonal anti-bodies and other substances. This example proves that an extremely effective treatment for the disease *does* exists, but is clearly not available to the vast majority of the population.

Finding an effective cure might prove even more promising than developing a vaccine. The three most advanced products under trial (in phase three) won't be ready before March 2021 at the earliest and won't be available for the wider population before Q3-Q4 2021 at best. Additionally, the effectiveness of these vaccines may prove elusive, if the virus mutates. Recently, the WHO has identified a new variant of the virus deriving from farmed minks in Denmark. If this new variant were to spread further, the vaccines currently under development may prove to be not very effective, and new vaccine trials may need to start from scratch.

Clearly the solution to this pandemic must be a mix of social distancing, better treatments, and the development and usage of vaccines, with lockdowns being the *extrema ratio*. Perhaps the emphasis should now be put on treatments rather than vaccines, as countries *need* to reopen. Economies and societies cannot tolerate this "stop and go" approach, whereby total closures are followed by partial re-openings, for too long. The long-term economic, social and political consequences of such an approach could be devastating.

Companies are now unable to plan and invest without any certainty about the near future, and workers are continuing to increase their levels of precautionary savings and are under-consuming out of the fear of joblessness as a result of the pandemic. Mental illnesses are also becoming endemic, as a mix of fear, anxiety, and stress is faced by individuals around the globe. Entire sectors, for example the hospitality and transportation sectors, are on their knees and struggling to survive as their business models simply cannot cope with pandemics. The political consequences of pandemics should never be under-estimated either. In 1919, Benito Mussolini formed the *Fasci di Combattimento* (the predecessor of the Fascist Party) not only immediately after World War 1, but also following the 1918-19 Spanish flu pandemic. It is not out of the question that political radicalisation could similarly follow Covid-19.

Looking Ahead

The Week Ahead: US Labor Market Recovery To Slows, EZ IP To Ease While UK GDP Is Expected To Have Rebounded In Q3

In the US, initial 'jobless claims' for the week ending on November 7 are expected to decline (*p:* 787k), as the labor market recovery slows. October's CPI inflation is expected at 1.3% y-o-y (*p:* 1.4), while core inflation is forecast unchanged at 1.7% y-o-y.

In the EZ, September IP is expected to ease to -5.9% y-o-y (*p*: -7.2%).

In the UK, Q3 GDP growth is expected to rebound to 15.8% q-o-q (*p:* -19.8%) and recover to -9.4% y-o-y (*p*: -21.5%).

The RBNZ is likely to maintain its policy rate at 0.25%, while introducing a Funding For Lending Program.

The Quarter Ahead: Fragile Recovery; Heightened Geopolitical Uncertainties Could Impact Growth; Central Banks To Remain Dovish

Global economy to decelerate. While in Europe new lockdowns will hamper growth, in the US the stimulus benefits are starting to fade. Despite improved health indicators, Asia's EMs are not insulated from renewed global weakness, as they rely on global demand.

In the US, Mr. Joe Biden was elected the 46th President with at least 290 electoral votes. Ms. Kamala Harris became the first woman elected VP. President Trump is contesting the results in four key swing states. Meanwhile, over 100k new COVID-19 cases were recorded for two consecutive days.

In the US, Fed Chair Powell noted that: *1)* due to the pandemic, the outlook for *"the economy is extraordinarily uncertain, and will depend in large part on the success of efforts to keep the virus in check"*; and *2)* all citizens must play a role in the nation's response to the pandemic *"by following guidelines set by public health officials"*.

In the EU, after the US elections, in a dispute over aircraft subsidies, the EU is likely to impose higher tariffs on US products.

According to EU officials '*the UK slowed down negotiations talks to consider the timing of possible concessions*'. Talks between the UK and EU are expected to resume in London in an effort to reach an agreement before the mid-November deadline.

In the UK, the BoE warned that even with a trade deal, the *"lack of Brexit preparedness could cut 1% from GDP growth in Q1-2021"*.

Last Week's Review

Real Economy: Virus Resurgence Spurs 'Double-Dip Recession' Fears, Worldwide. Risks Rise

In the US, September factory orders rose by 1.1% (*c:* 1.0%*; p:* 0.6%), as demand for transport equipment was lifted by: *i)* motor vehicles; and *ii)* fabricated metal products. Due to a lack of fiscal stimulus and increasing COVID-19 infections, the labor market recovery is starting to slow. October's non-farm payrolls declined to 638k (*c:* 600k; *p:* 672k) and the unemployment rate fell to 6.9% (*c:* 7.7%; *p:* 7.9%) - remaining well above its pre-pandemic level (about 3.5%).

In the EZ, September retails sales declined by -2.0% m-o-m (*c:* -1.0% *p:* 4.2%) and slowed to 2.2% y-o-y (*c:* 2.5%; *p:* 4.4%), as non-food products sales fell by -2.6%, led by: *i)* textiles; *ii)* clothing; *iii)* footwear; and *iv)* pharmaceutical and medical goods.

In Japan, September household spending fell further, by -10.2% y-o-y (*c:* -10.7%; *p:* -6.9%).

The Fed (a: 0.25%), BoE (a: 1.10%), and Norges Bank (a: 0.00%) kept their policy settings unchanged. While the Fed took a wait-and-see approach amid "*Presidential election uncertainty*", the BoE expanded its QE program by GBP 150bn, to GBP 895bn.

In Turkey, President Erdoğan replaced CBRT's head.

Financial Markets: Global Stocks Rally; Bonds Remain Stable; USD Down; Oil And Gold Rise

Market drivers**:** despite a lack of 'blue-wave stimulus' - due to continued Republican control of the US Senate – investors bet that a potential Biden win could normalize global relations and reduce geopolitical risks.

Global stocks surged w-o-w (MSCI ACWI, +7.6%, to 593), along with the S&P 500 (+7.3% to 3,509), posting the largest weekly rally since April. EZ stocks rallied (Eurostoxx 50, +8.3% to 3,204), lifted by: *i)* strong quarterly earnings reported by European corporations; *ii)* upcoming ECB easing, as announced by President Lagarde; and *iii)* the additional stimulus measures announced in the UK.

Fixed income: w-o-w global bonds rose slightly (BAML Global, +0.3% to 298.3); during a volatile week driven by election news, longer-term UST yields ticked down (UST, -4 bps to 0.82%).

FX: w-o-w, the USD weakened against most currencies (DXY, -1.9% to 92.229; EUR/USD, +1.9% to 1.187). The TRY continued to fall (USD/TRY -2.1% to 8.520), amid investors' anxiety about: *1)* the future of the economy; *2)* political interference in economic management; and *3)* disagreements of the government with its NATO allies.

Commodities**:** oil prices rose (Brent, +5.3% to 39.5USD/b), as OPEC+ considered deepening oil production cuts amid: *i)* rising Covid-19 cases in Europe and the US; and *ii)* fresh economic lockdowns in Europe that could further curb oil demand. Gold rose (+3.9% to 1,952 USD/Oz.) – showing its safe-haven appeal.

Abbreviations, Acronyms and Definitions

a	*Actual*
AKP	*Justice and Development Party, Turkey*
ann.	*annualized*
ARS	*Argentinian Peso*
avg.	*Average*
bn	*Billion*
BoC	*Bank of Canada*
BoE	*Bank of England*
BoJ	*Bank of Japan*
bpd	*Barrels per day*
bps	*Basis points*
BS	*Balance sheet*
c	*Consensus*
C/A	*Current account*
CB	*Central bank*
CBB	*Central Bank of Bahrain*
CBK	*Central Bank of Kuwait*
CBT	*Central Bank of Turkey*
CDU	*Christian Democratic Union, Germany*
CNY	*Chinese Yuan*
CPI	*Consumer Price Index*
DJIA	*Dow Jones Industrial Average Index*
DJEM	*Dow Jones Emerging Markets Index*
d-o-d	*Day-on-day*
DXY	*US Dollar Index*
EC	*European Commission*
ECB	*European Central Bank*
ECJ	*European Court of Justice*
EIA	*US Energy Information Agency*
EM	*Emerging Markets*
EP	*European Parliament*
EPS	*Earnings per share*
EU	*European Union*
EUR	*Euro*
EZ	*Eurozone*
Fed	*US Federal Reserve*
FOMC	*US Federal Open Market Committee*
FRB	*US Federal Reserve Board*
FX	*Foreign exchange*
FY	*Fiscal Year*
GCC	*Gulf Cooperation Council*
GBP	*British pound*
GDP	*Gross domestic product*
IMF	*International Monetary Fund*
INR	*Indian Rupee*
IPO	*Initial public offering*
IRR	*Iranian Rial*
JPY	*Japanese yen*
k	thousand
KSA	*Kingdom of Saudi Arabia*
LN	*Northern League, Italy*
M5S	*Five Star Movement, Italy*
m-o-m	*Month-on-month*
mb	*Million barrels*
mb/d	*Million barrels per day*
MENA	*Middle East and North Africa*
MHP	*Nationalist Movement Party, Turkey*
mn	*Million*
MPC	*Monetary Policy Committee*
NAFTA	*North-American Free Trade Agreement*
NATO	*North Atlantic Treaty Organization*
OECD	*Organization for Economic Cooperation and Development*
Opec	*Organization of Petroleum Exporting Countries*
p	*Previous*
P2P	*Peer-to-peer*
PBoC	*People's Bank of China*
PCE	*Personal Consumption Expenditures*
PE	*Price to earnings ratio*
PM	*Prime minister*
PMI	*Purchasing managers' index*
pps	*Percentage points*
pw	*Previous week*
QCB	*Qatar Central Bank*
QAR	*Qatari Riyal*
QE	*Quantitative easing*
q-o-q	*Quarter-on-quarter*
RE	*Real estate*
RBA	*Reserve Bank of Australia*
RRR	*Reserve Requirement Ratio*
RUB	*Russian Rouble*
SWF	*Sovereign Wealth Fund*
tn	*Trillion*
TRY	*Turkish Lira*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US	*United States*
USD	*United States Dollar*
USD/b	*USD per barrel*
UST	*US Treasury bills/bonds*
VAT	*Value added tax*
VIX	*Chicago Board Options Exchange Volatility Index*
WTI	*West Texas Intermediate*
WTO	*World Trade Organisation*
w	*Week*
w-o-w	*Week-on-week*
y	*Year*
y-o-y	*Year-on-year*
y-t-d	*Year-to-date*
ZAR	*South African Rand*
2y; 10y	*2-year; 10-year*