

CIO Viewpoint

Delta spells new risk dimension for markets

Investment Solutions

5 July 2021

Last week, the World Health Organisation [recorded](#) 2.6 million new Covid infections and 57,000 deaths globally, the lowest mortality figure in almost eight months. However, increasing numbers of new cases are caused by the Delta variant, Covid's most contagious mutation to date. Beyond investors' fears of runaway inflation potentially triggering a premature hike in interest rates, the fast-spreading variant now poses a threat worth watching for economic recoveries and financial markets.

As of 29 June, Covid's B.1.617.2. or 'Delta' strain, first identified in Maharashtra state, India, in December 2020, was present in at least 96 countries according to the Geneva-based WHO. It is estimated to be spreading faster than the original strain and accounted for an estimated 95% of infections in the UK at the end of June. That has already delayed the UK's full re-opening by a month, now set for 19 July. Since early June, infections have risen more than six-times among British 20-39 year olds, where vaccination rates are lower. In the United States, the Delta variant may be accounting for [one-fifth](#) of new cases. Beyond the immediate resurgence of new infections, this matters because the more often a virus transmits, the greater its chances of mutating with sufficiently different characteristics to build another strain.

Delays in fully opening other economies cannot be ruled out and many countries are taking steps to try to prevent the Delta variant from taking hold. Indicators of real-time activity across business, trade, production, consumption and mobility, show that the US and EU, for example, have all recovered to around 90% of their pre-pandemic levels. The UK is slightly lower, at 84% of its pre-Covid levels (see chart 1, page 2).

"The combination of more transmissible variants, increasing social mixing, suboptimal vaccination coverage and relaxation of public health and social measures will slow this progress and delay the end of the pandemic," reads the WHO's most recent global update.

The WHO has a list of four Covid 'variants of concern,' including Delta. The 'Alpha' variant that first emerged in Kent, England in September 2020 pushed the UK into lockdown in January of this year and is now present in 172 countries. The Beta variant,



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Key takeaways

- Covid's Delta variant is becoming the dominant strain in a number of countries
- Where populations are vaccinated, jabs are proving effective with low hospitalisations and mortality
- Full re-openings may be delayed by the Delta variant but most economies have proven resilient and remain on a recovery path
- We remain positioned for this robust global growth secured by effective vaccines and favour allocations to risk assets.

Important information: Please read the important information at the end of the document.

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first identified in South Africa in August 2020 is now found in 120 countries worldwide. The Gamma variant, identified in the Brazilian city of Manaus in December 2020, is present in more than 72 countries. The WHO is monitoring, and has other ‘variants of interest’ labelled Epsilon, Zeta, Eta, Theta, Iota, Kappa and Lambda. These are found around the world, from the US and Brazil, to the UK, Nigeria, the Philippines, Japan and Peru.

Watching the UK

Still, we need to keep the Delta variant in perspective. Vaccines appear to be working (see chart 2, page 3). In economies where large numbers of the population are vaccinated and infections increasing, such as Israel and the UK, cases are mostly mild, with admissions to hospital and excess mortality rates low. Compared with previous waves of infections, that relieves the burden on national health systems. The UK and Israel have respectively [vaccinated](#) 66% and 65% of their populations with at least one dose of a Covid jab.

Assuming a two-week lead-time between infections and hospital admissions, we can estimate what the UK’s infection path would have been without vaccinations. These calculations suggest that the UK’s actual Covid hospitalisations are at least four-fold lower, and deaths 16-times fewer than they would have been without vaccinations.

This is both an argument in favour of widespread vaccination programmes, and a warning of what may happen in countries that lack such a programme or access to effective vaccines. Unless the developed world assists developing countries to accelerate vaccination programmes, more mutations are inevitable.

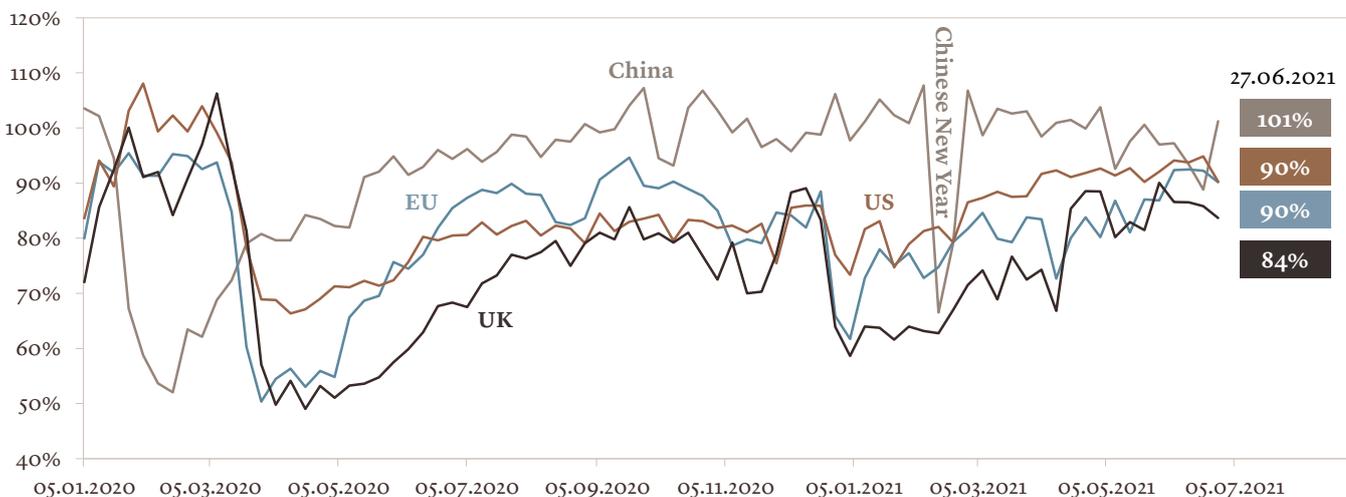
A clear divide is opening between countries’ access to different vaccines. Pfizer/BioNtech’s ‘Messenger ribonucleic acid’ (‘mRNA’) vaccine has proven as much as 88% effective against the Delta variant. Alternatives, such as the Chinese SinoVac and Sinopharm that rely on inactivated Covid pathogens to trigger an immune response, are widely used in the emerging world including China, Brazil and Indonesia. But their efficacy against the Delta variant remains [unclear](#).

In addition, some nations, notably in Africa, do not have enough supplies of any type of Covid vaccine. While the continent’s governments have placed enough orders to [vaccinate 60%](#) of their populations by the end of 2022, that has not yet turned into deliveries. In Nigeria, Africa’s most populous country, just 1% of residents has received a single vaccine dose, and in South Africa the share is 5%.

June’s meeting of Group of Seven (G7) leaders promised “at least” 870 million vaccine doses through the international [COVAX](#) initiative, and to deliver at least half of that pledge by

Real-time activity tracker for major economies

Normalisation indicator



Source: Lombard Odier calculations

the end of 2021. “We are in the race of our lives,” said WHO Director General [Tedros Adhanom Ghebreyesus](#) last month, “but it’s not a fair race, and most countries have barely left the starting line.” COVAX [forecasts](#) that it will have around 400 million doses per month available in the fourth quarter of this year.

Positioned for a vaccine-secured recovery

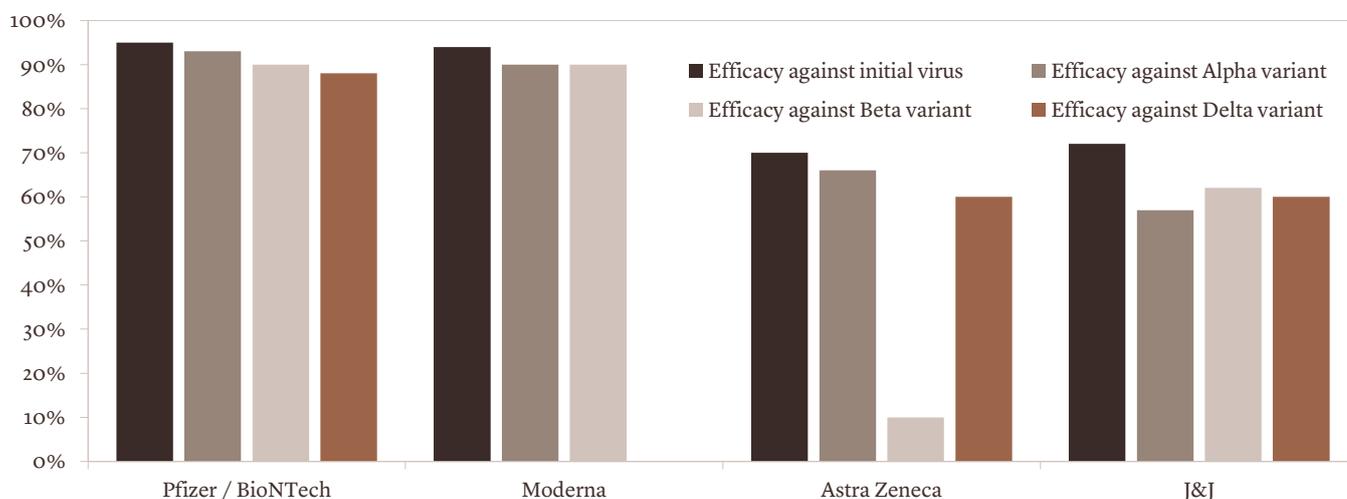
In portfolios, we remain positioned for a strong global economic recovery. Our base case remains that vaccines continue to be effective, since for now, no variant has proven resistant. While any new lockdown or public health restrictions would slow economic activity, from a positive point of view, nearly every country now has experience in mitigating Covid’s worst effects and demonstrated resilience and an encouraging capacity to bounce-back.

In this context, we continue to favour risk assets in our global asset allocations. However, investors who want to implement portfolio hedges in the event of a risk-scenario in which a vaccine-resistant mutation surfaces, option strategies can be effective. With the VIX, a measure of expected equity volatility, continuing to record its lowest levels since the start of the pandemic, investors have an opportunity to shield returns by buying put spread options on an equity index at affordable levels.

In currency markets, we expect that our central scenario for a strong macroeconomic recovery will translate into an improving outlook for Europe and moderately weaker US dollar. If this recovery were to stall because of renewed Covid measures, the US currency would strengthen as investors look for a refuge from risk and create a headwind for the euro.

mRNA vaccine efficacy against Covid variants

No data yet for Moderna vs Delta – preliminary results are good



Sources: Data as of 30 June 2021. Bloomberg, The British Medical Journal, Financial Times, Lombard Odier.

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