



WILLIAM BLAIR

COVID-19, Science and Economics

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C20-15759 | 05/2020 | EXP 12/31/2021



Part 2: COVID-19, Science and Economics

May 19, 2020

The Active Share

In the second installment of our COVID-19 series, our moderator, Hugo Scott-Gall, co-director of research on the Global Equity team, discusses the scientific and economic implications of the path to recovery with William Blair Investment Management Research Analyst Camilla Oxhamre Cruse, who has a Ph.D. in medicine and M.Sc. in biochemistry, and Global Strategist Olga Bitel.

Camilla's and Olga's comments are edited excerpts from our podcast, which you can listen to in full below.

https://media.blubrry.com/the_active_share/b/content.blubrry.com/the_active_share/The_Active_Share_Part_2_COVID_

Serology testing is a hot topic. What is it? What have we learned about it? What else do we need to know?

Camilla: Serology tests evaluate antibodies patients develop when they have the virus. They help us determine the true spread of the virus. They do not, however, tell us how long immunity will last, and that's critical.

Serology tests suggest that as much as 25% of the New York City population has had the virus. What are the implications of that?

Camilla: This was a rather small study; it evaluated around 7,500 people. Outside New York City, in less populated areas, between 3% and 4% of the population has antibodies. This should create some resistance to the virus spreading, but it doesn't create herd immunity. I think we need to do more studies.

How do mortality rates look?

Camilla: We know 25% of New York City has been affected, and we know approximately how many people have passed away from COVID-19, so the mortality rate appears to be in the range of 0.5% to about 0.7%. That is significantly lower than what we get if we calculate mortality rate just on diagnosed cases.

Should we be worried about a second wave in the fall?

Camilla: I think it's likely that we will see a slowdown of the infection rate during the summer (although the virus is unlikely to disappear as SARS did in 2003). Then the virus will start to increase again sometime this fall, probably around October/November, when seasonal coronaviruses start emerging.

The magnitude of the second wave is the main question. The more we contain the virus now, before and during the summer, the better we can contain the situation during the fall.

Does that mean you believe the longer lockdowns are now, the less impact there could be later?

Camilla: The road back is crucial. A slow, gradual, controlled easing of lockdowns is extremely important so that we can identify and contain smaller outbreaks (so-called hotspots) early. Testing is very important here, but we should also consider broader surveillance, temperature checks, and facial masks, particularly in highly dense populations. If we contain the spread now, we'll be much better prepared in the fall.

Olga, are Camilla's scientific expectations factored into economic expectations?

Olga: The crucial question is whether healthcare systems are adequate enough to support the burden so we don't require additional lockdowns. I don't think the market is currently expecting lockdowns. Our best case is that we'll see a gradual, sequential recovery starting in mid-May or June, when lockdowns really start to ease and people are able and willing to resume their pre-crisis lifestyles.

If a second wave proves as destructive as the first, and prevents people from engaging in their daily lives in a meaningful way, that will hurt the recovery irrespective of lockdowns. And if we have more lockdowns, it will severely depress activity and arrest the recovery.

In a connected system, though, you're only as strong as the weakest link.

Camilla: Yes, of course. We cannot easily prevent people from traveling between states. But if we roll out broad testing, we can identify any hotspots easily, and therefore contain the situation.

Do we have to worry about the virus mutating?

Camilla: Coronaviruses, including COVID-19, tend not to mutate as frequently as influenza viruses. Once we have a vaccine available, it could be functional for two to four years.

Are you optimistic about a quick vaccine development?

Camilla: More than 80 different vaccine candidates are in different stages of development. A handful are in clinical trials. Oxford University and several U.S. companies have candidates they think could be approved before year end. Manufacturing is a huge bottleneck, but some U.S. companies say they could scale up production to have millions of doses available in 2020 and 100 million doses in 2021.

The key is not, at this stage, to develop the perfect vaccine for COVID-19; we don't need to hit a home run. We need a vaccine that prevents a good percentage of the population from getting infected and protects people who do get infected from developing severe symptoms.

Olga: If the biggest medical impediment to our ongoing recovery is the fast ramp-up of vaccine manufacturing, does this argue for a global effort? The numbers you mentioned—a little more than 100 million vaccine doses by 2021—are small relative to the vast quantities that we need.

Even if we vaccinate just frontline healthcare workers in developed and emerging economies, we'll need hundreds of millions of doses. And if we want to vaccinate broader swaths of populations, we're talking about billions. Who has the capacity to manufacture these quantities, and how might this work in practice?

Camilla: The more vaccine candidates, the better off we will be. But I think there will probably be a gradual rollout. Healthcare workers will likely be vaccinated first because they're most exposed and are critical for society to function. Thereafter, we'll move on to the high-risk population (the elderly and those with comorbidities). The rest of us will have to wait.

Olga: It sounds like we're going to have a recovery in fits and starts in 2020. And then, as we move out further into 2021, and really get a handle on this pandemic from a medical perspective, we'll have a stronger chance at a more robust and sustainable recovery. Is that accurate?

Camilla: Yes. We've learned how to quickly mobilize hospitals and secure the equipment we need, and as I mentioned, we're working on widespread testing. Then we can start talking about a vaccine. So I don't think the second wave will be as impactful as the first wave.

What do you think of arguments being made for deglobalization?

Camilla: The scientific community has always been collaborative and it will continue to be so. The deglobalization is more about limiting manufacturing so we're less dependent on certain regions. It's more about hedging ourselves.

Will there be some spillover benefits from the money being poured into solving this?

Camilla: Desperate times, desperate measures, creative solutions. In that sense, I don't think this crisis is any different from any other crisis. It may be bumpy initially, but we'll find ways to do things. Telemedicine, for

example, has been fascinating during this crisis.

I was used to seeing my doctor in person, and I wouldn't break that habit unless I had to. Now I've had to break my habit, and we have the technology in place to leverage telemedicine on a completely different scale than we have done historically.

Olga, if we see a second wave in the fall or winter, will it snuff out the entrepreneurial spirit and damage what Keynes called "animal spirits"?

Olga: I don't think it's as much about snuffing out animal spirits as it is about turning supply disruption into supply destruction. If businesses have to postpone making money for a couple of weeks or months, but fiscal and monetary support helps bridge the gap, that's one thing.

But if businesses begin to reopen in the summer as we expect, then their balance sheets have to deal with another disruption, another hit to their revenues, another hit to their cash flows, I think that will tip many into bankruptcies. And then we'll start to think about genuine and prolonged supply destruction.

This may not happen to larger companies in the listed company space, but it will affect smaller businesses. Just to contextualize, these kinds of businesses (restaurants, bars) account for about 2.5% of U.S. gross domestic product. And closure of many storefronts will really affect how we perceive the recovery and our consumption choices.

That will likely be a factor when thinking about the timing of stimulus withdrawal, correct?

Olga: Exactly. Where initial government responses have been more proactive, especially in northern Europe, we've seen the financing bridge for small businesses extended through June.

Should the infection rates prove to be destabilizing in the fall, we could see another short-term bridge. Governments all around the world are focused on ensuring that the supply disruption does not morph into destruction, that we do not destroy our productive capacity and our economic capacity.

Hugo Scott-Gall, partner, is co-director of research for William Blair's Global Equity team. Olga Bitel, partner, is a global strategist on the Global Equity team, and Camilla Oxhamre Cruse, Ph.D., is a global equity research analyst.

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