

DELTA PULSE CHECK

HEALTH AND ECONOMIC POLICIES ADAPT

August 10, 2021

As a follow-up to our July report (*Delta Damage?*), we provide updated thoughts on the evolving COVID-19 situation. We continue to expect governments to balance economic activity with public health concerns, seeking to avoid hard lockdowns. We also expect the U.S. and Europe to reach 70-75% immunity levels in 2021. However, new information on the high transmissibility of the Delta variant raises a (manageable) risk to the growth outlook.

Tracking cases. New cases in developed regions have moved higher (see Exhibit 1) and are likely to continue rising in the U.S. as schools reopen, the Delta variant circulates, economies reopen and vaccine efficacy begins to wane. With a lower vaccination rate, U.S. cases may rebound at a similar or worse rate than in the U.K. and Israel. After peaking, U.S. new daily cases could remain in the 50-250 per million population range heading into 2022.

Tracking vaccinations. We continue to believe a combination of inoculation and natural infections will lead to 70-75% of the U.S. population with some form of immunity in 2021. We expect Europe will not be too far behind, if at all. However, some epidemiologists believe the fact that the Delta variant is twice as transmissible as the original strain raises the herd immunity threshold to over 85%, which will be extremely difficult to attain. Finally, evidence is emerging that vaccinated individuals are more contagious than originally thought with the Delta variant, which led the Centers for Disease Control (CDC) to revert back to its mask recommendation for vaccinated individuals.

Northern Trust
Global Asset Allocation

Erick Noensie, PhD
Senior Health Care Equity Analyst
en35@ntrs.com

Jim McDonald
Chief Investment Strategist
jxm8@ntrs.com

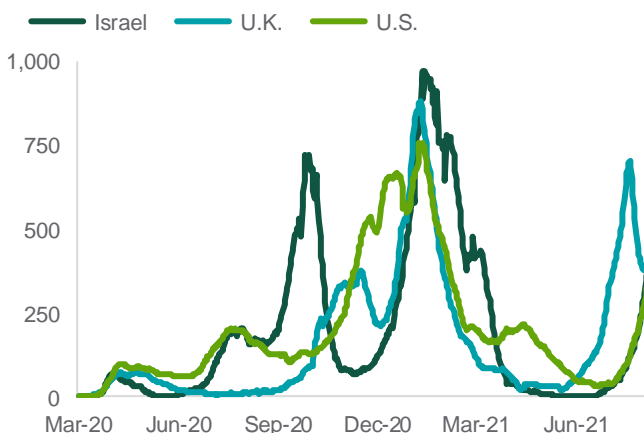
Dan Phillips, CFA
Director, Asset Allocation Strategy
dp61@ntrs.com

Colin Cheesman, CFA
Investment Analyst
cc327@ntrs.com

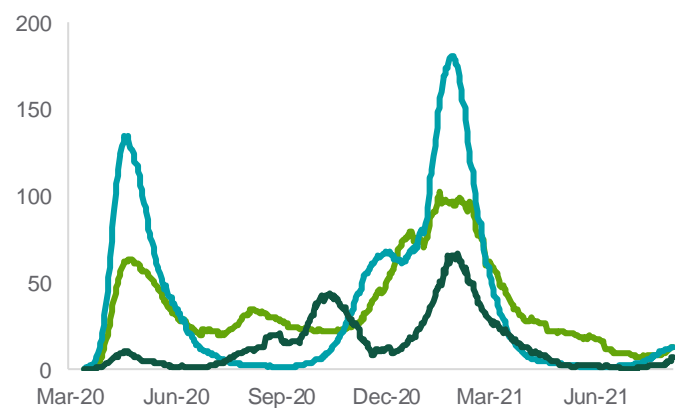
EXHIBIT 1: INFECTIONS GO UP, SEVERE CASES STILL LOW

Variants are contributing to rising infections, but severe cases should remain under control.

NEW DAILY CASES PER MILLION PEOPLE



DAILY MORTALITY PER MILLION PEOPLE



Source: Northern Trust Asset Management, Bloomberg. 7-day moving averages shown. Data from 3/1/2020 through 8/8/2021.

Tracking vaccine efficacy. The risk of severe COVID-19 in vaccinated individuals remains low. Severe cases are rising in highly-vaccinated areas, but off of a low base and are well-below prior highs (see Exhibit 1). A large Texas hospital reported 90% of its hospitalized patients are unvaccinated. Furthermore, most of its hospitalized vaccinated (“breakthrough”) patients have underlying health conditions with weakened immunity. This is significant in highlighting the very low risk of severe cases in vaccinated individuals despite some breakthrough hospitalizations, and the information should allow immunocompromised individuals to take extra precautions.

Tracking the economic impact. On one hand, virus-related restrictions in developed areas have generally eased and Google mobility data has held up well. On the other hand, companies have delayed return-to-office plans and stricter mask guidelines have been reinstated in some areas. There continues to be a clear correlation in the U.S. between rising cases (and mortality) and low vaccination rates. Those states with the lowest vaccination rates are experiencing the highest increases in cases and mortality, and some hospitals in COVID-19 hotspots are facing capacity issues. We expect this to increase the push for vaccinations, but also don’t expect those states who have shied away from strict restrictions to reverse course. Ultimately, we expect the economy to adapt to a new normal level of activity heading into 2022. Specific activities (e.g., in-person learning, traveling, dining out) will have to adjust to higher infection risk, but lower risk of severe disease should continue to allow governments to balance the pandemic’s economic and health burdens.

Investment implications. The length of the Delta wave is hard to predict. A recent estimate from the Institute for Health Metrics and Evaluation indicated U.S. new cases could peak as soon as the third week of August, but this may be a best case scenario. Regardless, we don’t expect a major economic or financial market impact as the economy and companies have learned to navigate the virus. With interest rates at the low end of our expected range, we are underweight fixed income and overweight risk assets that will benefit from the continued economic reopening and easy monetary policy. Additionally, our equity overweights are concentrated in the developed markets which are better positioned to handle the Delta variant through higher vaccination rates and more efficacious vaccines.

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