

Oh, My, Cron!

“There’s reason to be optimistic current boosted vaccines will provide meaningful protection against Omicron--based on both evaluation of new sequence, prior experience with strains with some immune escape, as well as emerging clinical feedback from South Africa.”

– Dr. Scott Gottlieb

Oh, My, Cron! by David Hay

Sorry to break it to you, Omicron, but you’re not the second coming of Delta. As more information comes out, it appears you are a mere virus and not a serious crisis. If you’re feeling full of yourself based on the rapid vaporization of the multitude of Crazy Over-Priced Stocks (COPS)—which are suddenly not nearly as over-priced—you are not the main driver of this reality check, at least in my view.

For sure, the news about you came out of nowhere last week to pulverize financial markets on Black Friday. Considering that this was one of the worst selloffs of the year, it definitely was a dark day. Markets rebounded on Monday, showing the buy-the-dip reaction function to any and all bad news is alive and well. But as the week has evolved--or devolved--there is clearly a sea-change underway in the US stock market. *(For more on market action and contributing factors, including Jay Powell, please see the [Likes/Neutrals and Dislikes](#) section.)*

Despite the emerging expert consensus that Omicron isn’t a serious threat, stocks of nearly all stripes are getting hit, even those with undemanding valuations. In other words, we aren’t seeing a replay of “The Great Rotation” that has happened over the last thirteen months whenever bad Covid news became less threatening. For those unfamiliar with this term, it refers to the long-awaited (like for many years) shift from the hyper-performing growth stocks into those with much less demanding valuations.

The latter cohort is heavily comprised of companies leveraged to economic strength. In other words, they benefit from re-opening trends and are hurt by renewed shutdowns or fears thereof. Energy shares are right up there among the poster kids for this situation but, obviously, airlines, hotels, cruise ship operators, restaurants, and industrial metal producers are other virus victims.

As noted above, there is a bloodbath presently underway in most formerly priced-for-perfection (and then some) stocks but it’s not catalyzing a shift into the classic value parts of the market, such as those mentioned above—at least not yet. Ironically, many stocks that fall into the value categories are also beneficiaries of higher inflation and are, accordingly, excellent hedges against ill-advised US government policies, including those of the Fed.

As nearly all EVA readers are aware, this author has argued for well over a year that America’s fiscal and monetary policies are both dangerously over-stimulative. Certainly, events of this year have validated those concerns. Yet, during this recent sell-off, stocks that should benefit from high inflation have been taken to the woodshed, as well.

Whether it was due to Delta or other reasons, the overall stock market was behaving in less than uniformly bullish fashion even prior to Omicron. Despite that the S&P and Nasdaq were making consistent new highs through most of November, the number of stocks making new lows was soaring well above those hitting 52-week peaks. The advance/decline line was also

noticeably deteriorating.

As of November 22nd—again, pre-Omicron--there were 554 new Nasdaq lows versus only 213 new 52-week highs. Similarly, for four consecutive days up to that date, there were nearly double the number of declining issues compared to those rising. This could certainly be noise but with a market this extended and spendy (though, as described above, quickly becoming much less so), it's worth being on-guard against even a deeper late year correction, as unusual as they are (again, more to follow on this topic in our Likes/Neutral/Dislikes section).

For those who believe Omicron is poised to cause renewed shut-downs, and/or is the primary reason that so many stocks are cracking almost overnight, I've created a summary of what I've come across that appears credible. In that regard, I've run this by Evergreen's biopharma expert source (whom I'll call "Dr. X") mentioned in last week's EVA and he is largely in agreement with these points.

- It's likely that Omicron is already circulating in the US.
- It's also not a disaster; vaccines are designed to cope with virus mutations, and they are also able to be quickly re-engineered to target new strains. However, it is possible, possibly probable, vaccines won't be as effective on variants.
- Omicron is likely still using the same cellular "door", ACE 2 receptors, to infect hosts (that would be us). If so, the vaccines will continue to help block its entry.
- Booster shots are important as they restimulate the immune system, increasing the number of antibodies, and also enabling it to recognize and block more antigens (the bad stuff).
- Our immune systems also adapt to virus mutations. The human body's natural virus-fighting B cells are able to adapt to combat a mutating antigen. Producing more B cells with a booster shot is beneficial.
- Omicron apparently has 32 new mutations and it's unclear how many of those vaccine antibodies can neutralize.
- Even if neutralizing antibodies can't prevent infections, another natural line of defense—T-cells—are activated. These are more challenging for the virus to evade due to their broad protection spectrum which covers almost all of the entire spike protein (this is how the virus penetrates healthy cells). Antibody responses generally target less of the spike protein. While T-cells don't automatically protect against infection, they reduce the odds of severe disease and death. (Please see the footnote at the end of this EVA for an elaboration by our expert on the aspect.)
- Current booster shots may work against Omicron and even if they don't an increased dosage might do the trick.

Here's what "Dr. X" had to say on the above:

"For a lay summary I think it's pretty much spot on. The beauty of the RNA vaccines is it's much easier to shoot ahead of the variant duck so to speak with that approach. If needed, Pfizer and Moderna will have the new ones ready very quickly. That said, the case is even stronger now for getting the boost with the original. That's because each round of immunization increases what's called epitope spreading. In essence the immune response reaches further into shape

space diversity to generate antibodies (and T cells) with a higher probability of recognizing variants other than the one used to vaccinate."

He added the below based on additional information he obtained:

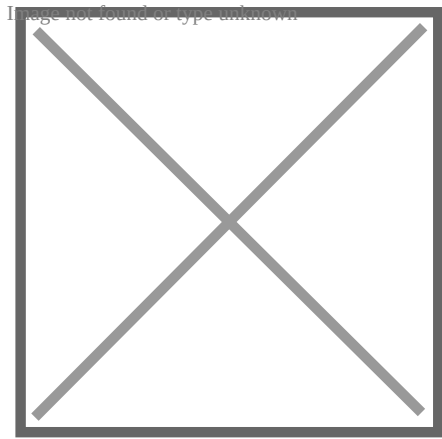
"Very early days but three observations stand out. The first is that omicron may cause less severe disease perhaps with a higher asymptomatic/symptomatic ratio. We'll have to wait and see but that sort of progression is often seen in the wild. One has to remember that for the virus's success is not defined by killing the host by replicating itself most extensively. So, one might see emergence of a natural "herd immunity" agent. Second, without going into confidential details, there are mapping algorithms for the T cell side of the immune response which predict that a very large fraction of the T cell recognition sites are preserved in omicron. Therefore, if T cell immunity is actually the more important driver of functional, long lasting protection, which I think it may very well be, then the current vaccines could be pretty protective. Third, there are no mutations of consequence in the protease of omicron, the molecular target of the Pfizer drug. So that should be effective."

Realizing how many Americans are vaccine reluctant, this is a classic case of don't shoot the messenger! And although, I personally have been triple jabbed, as has my wife, I have a problem with forcing people to get the "vax". It seems better to me to reason with them and developments like Omicron are likely to increase the percentage who voluntarily decide to get vaccines and boosters. Germany's outgoing health minister's recent comments, relayed by a close friend and client, rang true to me in this regard: *"pretty much everyone in Germany will be vaccinated, recovered or dead (by the end of winter)"*.

If he's right, Covid will, one way or the other, fade from the front pages and life will continue to return to normality. In last week's EVA, I made the point that countries, like New Zealand, and city-states, such as Singapore, that once had a goal of zero Covid infections are giving up on this policy. The strategy of adapting to the pandemic through vaccines, protection of vulnerable individuals, and common-sense protection measures, short of lockdowns, are likely to be adopted by a growing number of countries.

If so, buying into more cyclical parts of the stock market, including those overseas where bargains are even more pervasive, is likely to be highly rewarding. Accordingly, investors should welcome scares like this and deploy capital opportunistically. Based on recent market action, the opportunities are becoming more compelling by the day!

*For those of a highly technical disposition, "Dr. X" added the following on T-cells: "The sites on the spike protein recognized by T cells are overlapping but distinct from those recognized by antibodies so mutations that some pre-existing antibodies may no longer bind can still be recognized by the T cell arm of the immune system. More and more data indicate that's at least if not more important than antibodies for preventing severe infection/hospitalization." Hey, I said it was highly technical!



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