

“When you have a variant that has this many mutations in it as this one does, there is some suggestion from the literature that it becomes less contagious...on the whole this may be less contagious variant because its acquired so many mutations and that’s what we’ve seen in certain cases in the past.”

- Dr. Scott Gottlieb

An Unhappy Thanksgiving

This is definitely not what I envisioned for this week’s EVA! It was such a sleepy week, until today, that my intent was to actually postpone this section until next Friday...but that wasn’t meant to be. As I’m sure most EVA readers have seen, global markets began to materially weaken overnight. Then, as trading began in America earlier today, the carnage became apparent to domestic investors, at least those not totally checked out for a four-day weekend. At the end of today’s holiday-shortened trading session, the Dow closed down over 900 points, while both the S&P and the Nasdaq were off roughly 2.25%. The Russell 2000 Small Cap index was slammed by nearly 3.7%.

As has been the case for nearly two years, the culprit behind the turmoil has been Covid, in this case the so-called Nu variant that has suddenly emerged from South Africa. Nu is thought to have 32 mutations in its spike protein (which allows it to puncture and infect healthy cells). It is also feared that it may evade vaccines and immunities achieved from prior infections, as well. Some have called it the worst variant seen thus far. Illustrating the seriousness of the threat, the World Health Organization (WHO) has convened an emergency meeting today.

University of Oxford structural biologist James Naismith has speculated that vaccines will almost certainly be less effective against NU. However, he also added “It is bad news but it’s not doomsday.”

Echoing his last comment, Evergreen’s main go-to individual for expert scientific insights on all things Covid-related expressed this view in an email to me earlier today: “I wouldn’t go ape. The good thing about RNA vaccines (my note: like Pfizer’s and Moderna’s) is that you can generate new, variant specific ones quickly if needed.”

Morgan Stanley analyst Matthew Harrison added other calming views by noting that if Nu is less transmissible, the mutation will not become dominant. However, it may take at least two weeks to determine the nature of Nu variant’s transmissibility. Citigroup’s Head of Global Healthcare Research, Andrew Baum, concurs that the next two weeks should prove critical in this regard.

Travel restrictions may soon be placed on six southern African countries that have reported a handful of cases. Former FDA commissioner Scott Gottlieb—who has also been a consistent provider of valuable Covid updates, opinions, and accurate predictions—applauds the country of South Africa for its rapid disclosure of these cases.

Citi’s Andrew Baum is hopeful, as well, that the new Covid anti-virals announced by both Pfizer and Merck will be effective against the Nu variant. This is a view that Dr. Gottlieb also expressed (he also told CNBC today he still believes Delta will have been the last big Covid wave). However, Evergreen’s aforementioned biopharma expert isn’t as certain and believes

the Pfizer and Moderna vaccines provide superior protection. Both Dr. Gottlieb and our source agree that Regeneron's recently approved Covid anti-viral drug cocktail may be ineffective against the Nu variant.

My great friend and partner Louis Gave also put out an emergency message on this latest setback today. He pointed out the unfortunate timing given the notorious trading illiquidity on the day after Thanksgiving as well as overall priced-for-perfection valuations in the US market. His concern is that as most investors digest the dire news over the weekend, they may be inclined to sell en masse early next week.

However, Louis also believes that this development will likely cause the Fed and other central banks to defer for now their early-stage stimulus withdrawal efforts. In the case of the Fed, it is still in a nearly maximum easing stance having minimally backed off from its \$120 billion per month (or \$1.44 trillion per year) money fabrication blitz.

Accordingly, the Fed's in a most tricky situation. With inflation running hot and unemployment coming down rapidly, its uber-easy monetary stance is totally inappropriate; in fact, it is almost undoubtedly fanning the inflationary fires. Moreover, unlike in typical immediate post-recession periods, the labor problem isn't a shortage of jobs; rather, it is a deficit of willing workers. Yet, should Nu turn out to be more contagious and lethal than the Delta variant, it's hard for the Fed to tighten much. But, it is already massively behind the inflation curve. This is the case even if its nearly \$9 trillion dollar balance sheet (where its almost two-year exercise in money creation shows up most vividly) equates to a negative fed funds rate of 6% or 7% versus the minus 10% economic pundits like David Rosenberg believes it does. (When the Fed prints money, it is equivalent to cutting interest rates, though the exact correlation is highly debatable.)

Due to the Nu news—which feels like more old, as in bad, news—we are not providing specific Likes/Neutrals/Dislikes at this time. However, should next week bring a further intense sell-off in the economically-sensitive sectors that were hit so hard today, we would suggest EVA readers buy into that weakness. Precious- and EV-related metal miners (like copper) should be particularly targeted. Anything that forces the Fed to stay ultra-loose for even longer is clearly bullish for these sub-sectors.

It is interesting that countries which once sought to totally eliminate the virus, by resorting to strict lockdowns and other Draconian measures, are electing to "live with Covid". Examples of this are New Zealand and Singapore. Thus, they seem to be gravitating to the far more relaxed Swedish model that once attracted international scorn but is increasingly seen as a potentially superior approach. Even as Covid infections have been surging in much of Europe, Sweden has been reporting just 82 new cases and a mere 0.4 deaths per million. In Denmark, by comparison, the new case count is 608 per million and the death rate is 1.1 per million. For the US, the comparative numbers are 261 and 3.5, per million, respectively.

Unless, the Nu variant turns out to be decidedly more virulent than the Delta strain, I would expect a growing number of countries to track Sweden's Covid coping tactics. If so, that's another reason to be a buyer on weakness of stocks that are beneficiaries of a continued re-opening of the global economy and a second growth surge in 2022. Hopefully, next year it really will be a Happy Thanksgiving!

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