



Philequity Corner (May 25, 2020)
By Wilson Sy

Vaccine hope

A glimmer of hope came to light last Monday when listed American biotechnology company Moderna (Ticker:MRNA) reported that its vaccine had a successful Phase One trial. This report reversed bearish sentiment in the market, with the Dow Jones index gaining 917 points or 3.85%. Some stocks in the battered tourism and airlines sector rose by more than 20% as investors cheered this new hope. The PSEi also participated in this rally, rising 1.4% the next trading day.

Encouraging Phase 1 trial

In its May 18 press release, Moderna reported encouraging interim safety and immunogenicity data in the Phase 1 trial of its COVID-19 vaccine, mRNA-1273. According to the company's press release, the vaccine was safe and well-tolerated by all 45 participants across three different dose levels (25 µg, 100 µg and 250 µg). Moreover, all participants developed antibodies against SARS-CoV-2 (the virus responsible for COVID-19) by day 15 after a single dose. At day 43 or 2 weeks after the second dose, the 25 µg and 100 µg dose levels produced binding antibodies at and above the levels seen in blood samples from people who recovered from COVID-19.

Health experts raise concerns

The enthusiasm over Moderna's findings got dented the day after as various experts examined the results of its study. While the data was clearly positive, experts argued that the company did not reveal any data that is critical to assessing the effectiveness of its potential vaccine. Moreover, although Moderna gave an age range for the participants (18-55 years old), it did not mention the average age of the participants.

It is also important to note that the vaccine trials of Moderna and other companies were greatly accelerated because of Trump's Operation Warp Speed – a program which pulled together pharmaceutical companies, government agencies and the military to cut the development time of the vaccine. To put it in perspective, vaccines usually take a decade or longer to develop, with the fastest still taking four years. Since the trials were accelerated, health experts said it is too soon to conclude whether the antibodies produced by the vaccine are durable enough to last for years. Thus, only time will tell whether this vaccine is effective or not.

Market corrects as hope fades

Faced with this sobering assessment, investors who bought on hope were faced with the stark reality of decade-long vaccine development. The Dow Jones index fell nearly 400 points the day after. Other news that weighed on markets was Trump's announcement that he is not inclined to talk to Chinese President Xi Jinping at this time. He even suggested that he may sever ties with China over its handling of the pandemic. Last week, in legislation aimed at Chinese companies, the US Senate overwhelmingly approved a law that tightens rules for foreign companies that want to be

listed on US stock exchanges. Hong Kong's stock market also plunged 5.6% last Friday as China unveiled plans to impose new national security laws in order to crack down on dissent.

Cautiously optimistic

As investors weighed Moderna's result vs. the comments of vaccine experts, markets could have plunged sharply with all the bad news mentioned above. However, markets stabilized after hearing statements from White House Health advisor Dr. Anthony Fauci. He described Moderna's results as "encouraging" and said that he was "cautiously optimistic" regarding the vaccine. While Dr. Fauci cautioned that "we have a long way to go", he also highlighted that there are many other companies that are developing vaccines at the same time. All told, there are more than 100 COVID-19 vaccines in development, so there is a good chance that one of them reaches the finish line. Some of these are Astra Zeneca's partnership with Oxford University, Johnson and Johnson, and China's CanSino Biologics, to name a few.

Fed is "not out of ammunition by a long shot"

Other than hopes for a vaccine, one important reason behind the market's recovery is the aggressive monetary stimulus. Banks here and abroad have relaxed lending rules and cut interest rates significantly in a bid to stimulate borrowing. While there were concerns that the US Federal Reserve had fired its last bullet when it cut interest rates to zero, Fed Chairman Jerome Powell swiftly answered these with a broad \$2.3 trillion bond-buying program. In a recent interview, Powell also said that the Fed is "not out of ammunition by a long shot".

CREATE to boost Philippine growth

However, monetary stimulus alone is not enough to rekindle growth – we need fiscal stimulus as well. Just as the US unveiled its largest rescue package ever, Finance Secretary Sonny Dominguez and Acting NEDA Secretary Karl Chua proposed a revamped tax reform package called CREATE (Corporate Recovery and Tax Incentives for Enterprises Act). Some important provisions of CREATE are the immediate lowering of the corporate income tax rate from 30% to 25% (instead of 1% per year in CITIRA) and a 4-9 year sunset period for tax incentives of existing investors. This will be a boon for our country which is in dire need of policies that can get our economy back on its feet after enduring a crippling lockdown. We hope that Congress can pass this bill before it adjourns its session 2 weeks from now.

Markets will rise and fall on vaccine news

With many investors worried not just about their finances but their lives as well, we expect news about vaccine development to move markets considerably. So far, we have been seeing hopeful news regarding vaccines, hence the strength in markets. Unfortunately, news of a potential vaccine failing to produce positive results or pushing back of development deadlines may cause stocks to retreat sharply as well. Thus, it is important not only to monitor the news, but also maintain an asset allocation that will allow one to sleep soundly at night, with or without a vaccine.

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