

## *Covid: the UK is the canary in the coal mine*

Given the unrest over the past two weeks that has dominated headlines, it has been easy to forget that we are still in the midst of a pandemic. Whilst the move to Adjusted Level 3 earlier this week was welcome, one cannot help but contrast the empty stadium for the rugby test against the British Lions last Saturday with capacity crowds at the Euro 2020 football tournament and Wimbledon. Britain is getting back to normal, but in many respects, they are the canary in the coal mine. Is there hope that the end of Covid restrictions may be in sight?



**Michael  
Porter**

The unrest over the past two weeks has hogged the headlines so it has been easy to forget that we are still in the midst of a global pandemic. Locally, we are now approaching almost 2.4 million cases since the onset of the pandemic last year and tragically, almost 70,000 deaths. It is encouraging that the daily incidence of new cases is falling – hopefully an indication that our 3rd wave has peaked – which has prompted a

return to Adjusted Level 3 earlier this week. Intuitively, and given the level of global vaccinations, it is easy to assume that South Africa is an outlier. The world is moving forward whilst we are stuck in endless lockdowns of various intensities. In truth, this is not the case. Globally, cases are on the rise again, driven by the Delta variant. Since the start

### GLOBAL COVID CASES



*Global Covid cases are rising again, driven by the Delta variant. Those countries with rising case numbers include the UK, US, Russia, France and Spain, amongst others.*

### SPEED READ

- SA has moved to Adjusted Level 3 Lockdown, but the pandemic is still raging given our low vaccination rate. Globally, cases are rising again across many territories.
- Elsewhere, economies are trying to return to normal. The UK is the global test case, given their high vaccination rate and rapid easing of restrictions.
- The immediate outlook for global growth has moderated slightly, but the longer-term trajectory is largely unaffected.

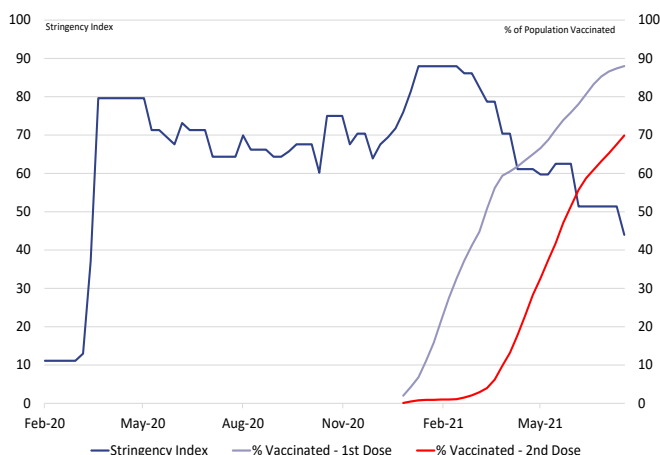
of the pandemic 18 months ago, there have been almost 200 million recorded cases and 4.1 million deaths globally.

Around the world, populations are venting their frustration with the ongoing restrictions and the curbs on freedoms imposed to control further outbreaks. Last weekend the French Parliament passed a law that requires a “health pass” to access restaurants, bars, trains and other domestic transport. Germany has hinted that rising cases will trigger restrictions on anyone not vaccinated. There are many other examples. Quite rightly, many are asking whether we will ever return to normality again if indeed we can even define “normal”?

In this regard, the UK is widely considered to be the canary in the coal mine – a test case of whether vaccines are the solution. Credit must be given to the UK for the speed and efficiency of their vaccination program. To date, more than 84 million vaccine doses have been administered. The result is that almost 90% of the population have received one dose, and 70% have received two doses. Theoretically, the UK should be rapidly approaching herd immunity. This has

prompted the Government to relax many of the restrictions that have been in place for the past 15 months. Dubbed “Freedom Day”, in reference to the day on which citizens effectively got back their daily freedoms, effective 19th July it is no longer compulsory to social distance (except in very limited circumstances), wear masks, or limit the number of people at gatherings. Furthermore, if you have been fully vaccinated, there is no need to self-isolate after contact with a positive case. Relaxation of restrictions has further to go, but in essence, the message is that freedom of movement can return to normal once vaccinations are pervasive.

### UK STRINGENCY INDEX VS VACCINATIONS



*Rising levels of vaccinations across the UK have prompted the Government to relax restrictions – now at their least onerous since the start of the pandemic.*

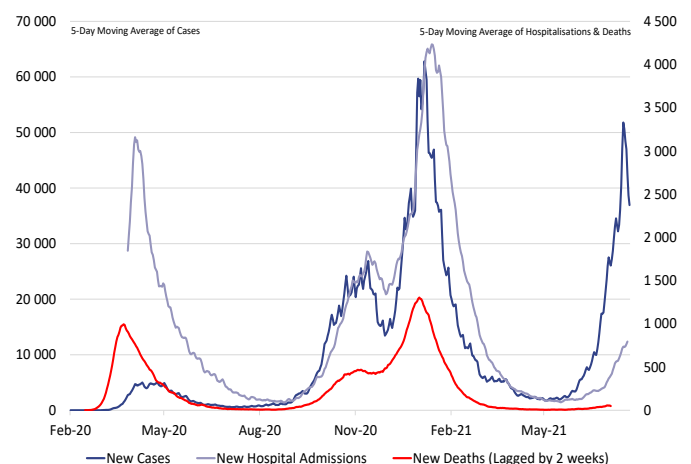
For sports fans, the UK is widely envied. Euro 2020 football matches were played in front of packed stadiums, and Centre Court at Wimbledon was at capacity for the singles finals matches. That is in stark contrast to the empty stadium in Cape Town last week for the British & Irish Lions match against the Springboks. Sport has provided a glimpse of what might be possible again. But is this optimism justified?

Despite the high vaccination rate, the relaxation of social distancing measures has resulted in a surge of new cases. The 5-day moving average of new cases peaked at just over 50,000 across the UK last week – not far from the peak of 60,000 reached earlier this year during the 2nd wave when restrictions were far more onerous. This has led many to question whether vaccinations are proving effective after all. On balance, the investment community is hopeful – based on

the key understanding that vaccinations are not designed to prevent contraction of Covid, but rather to prevent chronic illness, hospitalization and possible death. Seen against that backdrop, the chart below may be the most important chart in the world to follow right now.

It plots the 5-day moving average of cases (dark line) vs new hospital admissions (light blue line) and deaths (red line, lagged by 2 weeks). In the past, the correlation between the various datasets has been tight. Hospital admissions have followed new cases closely, and so too the number of deaths. However, those correlations have broken down recently, despite the rapid rise in new cases. Whilst hospitalization rates have risen, the quantum is significantly lower than prior surges. What is even more encouraging is that whilst some new deaths have been reported (31 on the day of writing), again the quantum is a fraction of that recorded in past waves. One cannot argue that its early days – after all one swallow does not make a summer – but this provides the clearest evidence yet that vaccinations are doing the job.

### UK CASES, HOSPITALIZATIONS & DEATHS



*Is this the most important chart in the world? Despite the surge in new cases, hospitalization rates and death rates are significantly lower than prior waves, offering hope that vaccines are the key to normality.*

It appears that the UK may have reached an inflection point over the past few days. Case numbers are falling again which may fuel further optimism but there is good reason to temper expectations. The trajectory of new cases is far from certain and vaccination rates vary hugely both within countries and between countries, given the scepticism over their efficacy. There is a risk that rising cases

**“It appears that the UK may have reached an inflection point over the past few days.”**

will prompt governments to intervene again, which would dampen the recovery that markets are anticipating. Even in the UK, experts are concerned that hospitalization rates might climb sharply in the weeks ahead, which may cast doubt on their decision to relax restrictions.

To date, global GDP forecasts remain robust – generally, a slightly weaker quarter of growth now is largely compensated for by stronger growth in the future. If anything, growth rates for 2021 have actually been revised higher relative to what was expected earlier this year. Global GDP growth is now expected to reach 6.4% this year, versus the forecast of 6.1% in February. The outlook for 2022 has

also improved. That should underpin markets and equities.

However, with markets trading near record highs, they are vulnerable to bouts of volatility should hospitalization rates start to climb which questions the efficacy of vaccines. As we navigate the second half of the year, investors should not be surprised if there are bouts of volatility – after all, we should now be used to expecting the unexpected. But view such periods for what they are and

don't let that derail your longer-term objectives. Equally, let us hope that the global experience allows our own restrictions to be eased steadily as our vaccination rates finally accelerate.

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*The Euro football championship final in London at Wembley Stadium, was one of the largest public events held anywhere in the world over the last eighteen months.*



Please note, due to the concerns over the 3rd wave of Covid, Harvard House has decided to cancel our Insight presentations until further notice.



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**Topic:** n/a

### Natal Midlands

Date:	TBC
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

### Johannesburg

Date:	TBC
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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