

## MARKET COMMENTARY

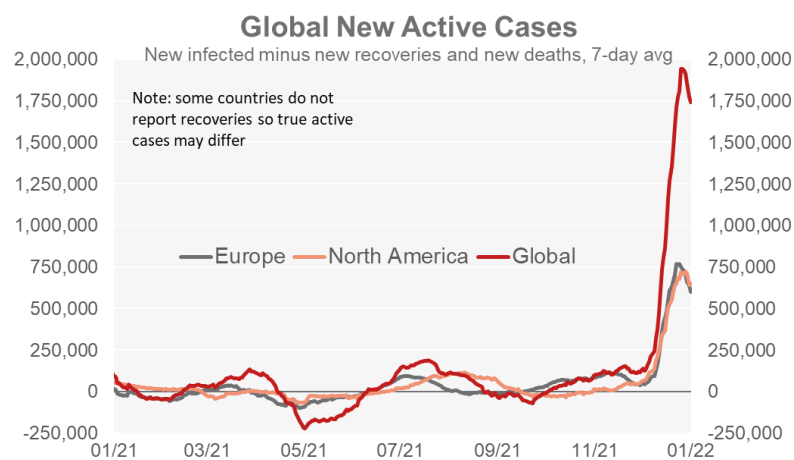
### Covid-19 Facts & Figures: Omicron still spreading but economic damage is likely to prove limited

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January 19, 2022

- The Omicron variant is spreading fast, with advanced economies currently most affected. It has lifted global daily infections above 3 million for the first time. The World Health Organization predicted that more than half of Europe's population will be infected with the Omicron variant within the next six to eight weeks.
- Increasing medical evidence shows that Omicron is much more infectious due to a mutated spike protein but seems to cause less severe illness than delta.
- As of January 18: 3 million 7-day average new cases, increasing from 2.6 million a week ago and 651,000 a month ago. Now confirmed 334 million cases worldwide. 5.55 million people have died (1.7% of cases) and 269 million have recovered (80.5%).
- Europe: 110m cases; 7-day average growth of 1.25m vs 1.18m a week ago and 365k a month ago. USA: 67m cases; 7-day average growth of 754k vs 747k a week ago and 130k a month ago.
- In response to the new wave, Europe has reacted most strongly in tightening restrictions, also causing several protests around the continent. China's zero tolerance policy is increasingly questioned as disproportionate against new variant characteristics.
- Europe and US are ramping up booster efforts, with UK most advanced. Vaccines still seem effective in preventing severe disease/deaths, while only booster shots seem to help contain infections. The WHO said repeating booster doses of the original Covid-19 vaccines is not a viable strategy against emerging variants.
- Vaccines: around 9.75 billion doses have been administered globally, of which 529 million in the USA and 1.16 billion in Europe. 137 vaccines are in clinical evaluation and 194 vaccines are in preclinical evaluation. Globally, 878 million booster doses have already been administered, of which 80 million in the USA and 225 million in Europe.
- We assume that Omicron will facilitate a shift from a pandemic to an endemic situation. The key risk lies in new variants making the virus more lethal again – a thin tail risk in our view considering the progress in the vaccination campaign and the new drugs for treating Covid-19. Omicron is causing another speed bump in Q1, but the economic damage is likely to prove more limited than from earlier waves.
- The zero-Covid policy in Asia is likely to delay the normalisation of the global supply chain and fan near-term inflation pressure. The market focus has rightly shifted from Covid to central banks, with the increasingly hawkish Fed likely to keep the pressure on bond yields and financial volatility.

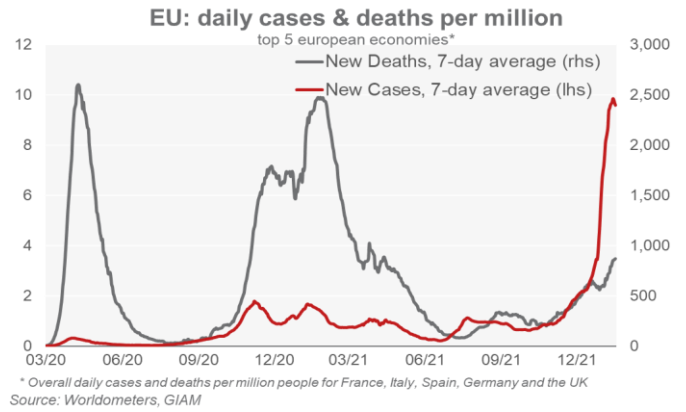
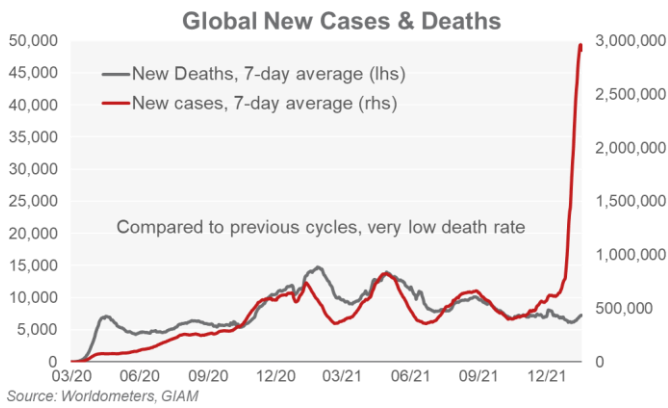
The spread of the Omicron variant refuelled global infection, lifting **global daily cases above 3 million for the first time**. Advanced economies are now the most affected, with daily infections as high as 3 to 5 times the levels reached at the peak of previous waves. Increasing medical evidence shows that **Omicron is much more infectious** due to a mutated spike protein but seems to cause **less severe illness** than delta. More recently, the World Health Organization has warned that half of Europe will have caught the Omicron Covid variant within the next six to eight weeks.



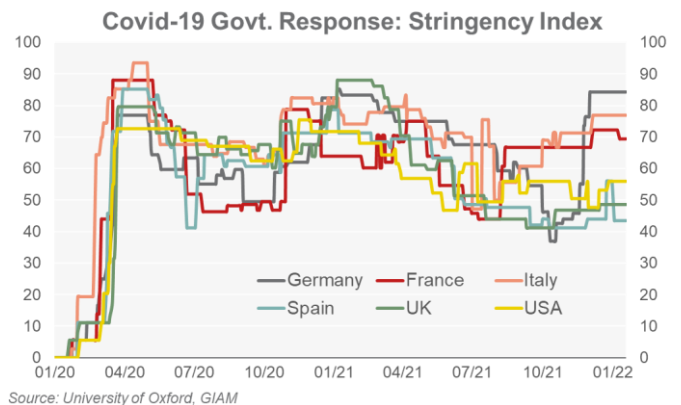
TOP 10 most hit countries										
Country	Cases			Deaths			Fatality Rate		Median Age	
	Total	last 7D avg	last month	Total	last 7D avg	last month	Total	last month		
USA	67,590,030	+ 754,508	+ 581,515	853,958	+ 1,688	+ 1,568	1.3%	0.3%	38.5	
India	37,901,241	+ 261,533	+ 112,241	487,226	+ 367	+ 318	1.3%	0.3%	28.7	
Brazil	23,215,551	+ 83,630	+ 35,574	621,578	+ 185	+ 128	2.7%	0.4%	33.2	
UK	15,399,300	+ 95,244	+ 137,784	152,513	+ 272	+ 181	1.0%	0.1%	40.6	
France	14,739,297	+ 309,433	+ 215,198	127,638	+ 226	+ 203	0.9%	0.1%	41.7	
Russia	10,865,512	+ 25,901	+ 21,350	322,678	+ 713	+ 837	3.0%	3.9%	40.3	
Turkey	10,591,757	+ 67,686	+ 49,358	85,077	+ 157	+ 154	0.8%	0.3%	32.2	
Italy	9,018,425	+ 177,652	+ 127,937	141,825	+ 324	+ 210	1.6%	0.2%	46.5	
Spain	8,518,975	+ 132,390	+ 104,783	91,277	+ 128	+ 85	1.1%	0.1%	43.9	
Germany	8,140,446	+ 72,713	+ 45,391	116,610	+ 191	+ 245	1.4%	0.5%	47.8	
<b>World</b>	<b>333,950,235</b>	<b>+ 3,007,132</b>	<b>+ 2,082,584</b>	<b>5,549,686</b>	<b>+ 7,182</b>	<b>+ 6,618</b>	<b>1.7%</b>	<b>0.3%</b>	<b>31.0</b>	

Most hit regions									
Country	Cases			Deaths			Fatality Rate		
	Total	last 7D avg	last month	Total	last 7D avg	last month	Total	last month	
Europe	110,527,045	+ 1,254,166	+ 953,561	1,381,775	+ 2,557	+ 2,419	1.3%	0.3%	
Asia	87,524,323	+ 444,517	+ 219,776	1,466,160	+ 1,518	+ 1,694	1.7%	0.8%	
North America	79,399,201	+ 854,895	+ 649,183	1,256,833	+ 2,030	+ 1,806	1.6%	0.3%	
South America	43,774,017	+ 309,059	+ 157,981	1,200,036	+ 667	+ 380	2.7%	0.2%	
Africa	10,570,128	+ 39,009	+ 43,742	235,135	+ 353	+ 294	2.2%	0.7%	
Oceania	2,049,540	+ 105,302	+ 58,170	5,096	+ 56	+ 24	0.2%	0.0%	
Others	723	-	-	15	-	-	2.1%	-	

\* Regional classification according to the United Nations Geoscheme; Russia included in Asia

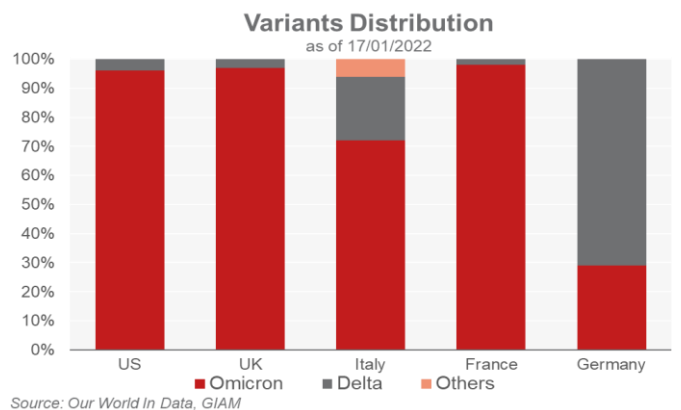
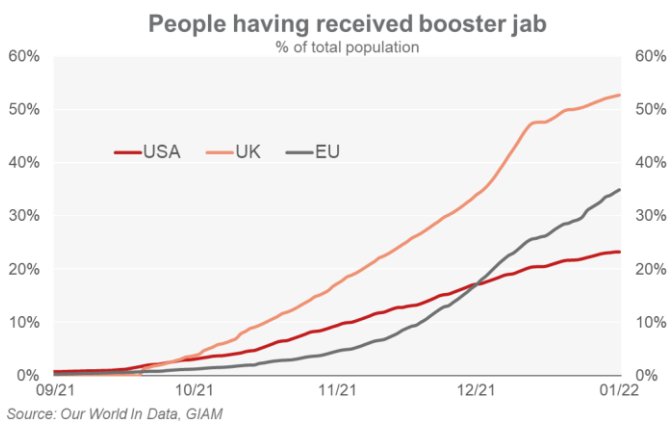


In response to the spread of the Omicron variant, **Europe has reacted most strongly in tightening restrictions.** Italy introduced compulsory vaccination for people over age 50 and for university personnel, and extended the need for the green pass to enter some businesses and public offices. Similarly, Greece has imposed a vaccination mandate for people over age 60. France has approved a new measure that will introduce a vaccine pass to enter public places. The Netherlands had one of Europe’s toughest lockdowns for a month through the end-of-year holidays. This tightening in restrictions caused protests across Europe, with thousands of people rallying in many cities across the continent.



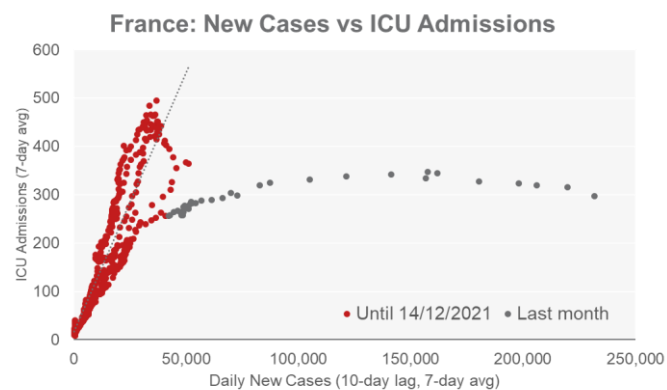
**Europe and US are ramping up booster efforts, with UK most advanced. Vaccines still seem effective in preventing severe disease/deaths,** while only booster shots seem to help contain infections. At the same time, COVAX – the UN-backed vaccine sharing programme – reached its target of shipping one billion doses to 144 countries. Overall, 9.75 billion vaccine doses have been administered globally, of which 878 million have been boosters. Around 60% of the world population have received at least a dose of the vaccine, and in Europe more than 30% of the population already received a booster.

The WHO said **repeating booster doses of the original vaccines is not a viable strategy** against emerging variants. It also added two more drugs to its guidelines for recommended treatments for Covid. More recently, **Moderna has started to develop an Omicron-specific vaccine** and said they expect to be able to share data about clinical trials with regulators around March.

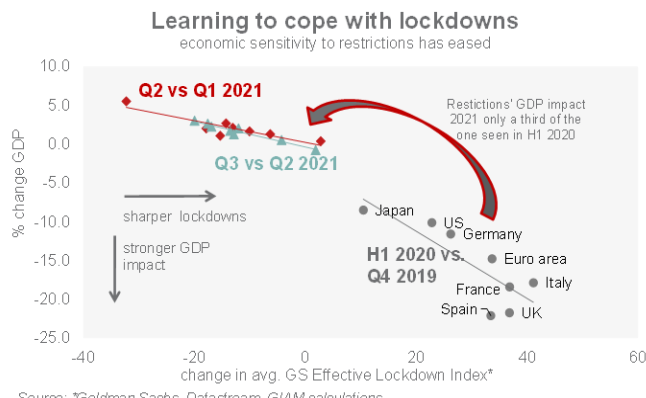


We assume that Omicron will facilitate a **shift from a pandemic to an endemic situation**. The **key risk lies in new variants** making the virus more lethal again – a thin tail risk in our view considering the progress in the vaccination campaign and the new drugs for treating Covid-19. **Omicron is causing another speed bump in Q1**, but if collapse of critical infrastructure can be prevented (base case), **the economic damage is still likely to prove much more limited than from earlier waves as:**

- a) Vaccinations and boosters shots in particular help to contain impact on hospitalizations/deaths
- b) Less severe policy response / Covid restrictions on lower mortality
- c) Businesses / people have learned to cope much better with restrictions.

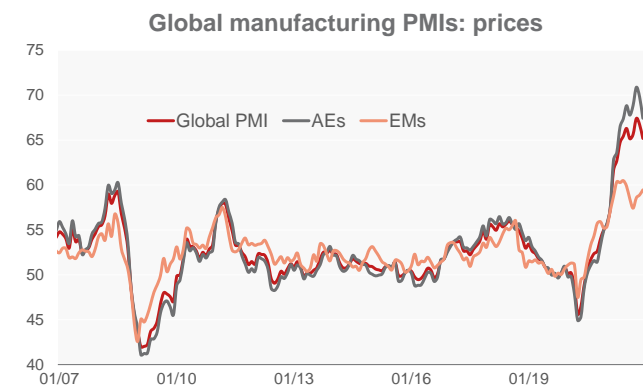


Source: Our World In Data, GIAM

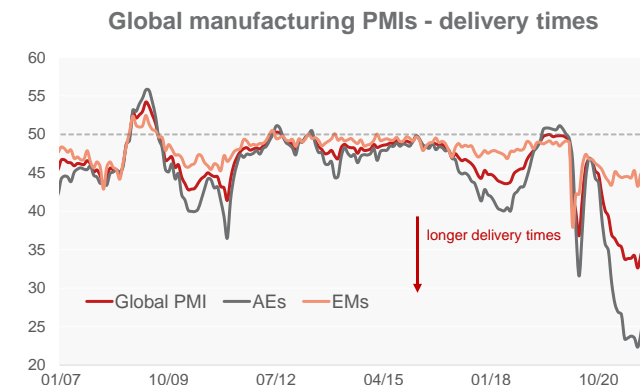


Source: Goldman Sachs, Datastream, GIAM calculations

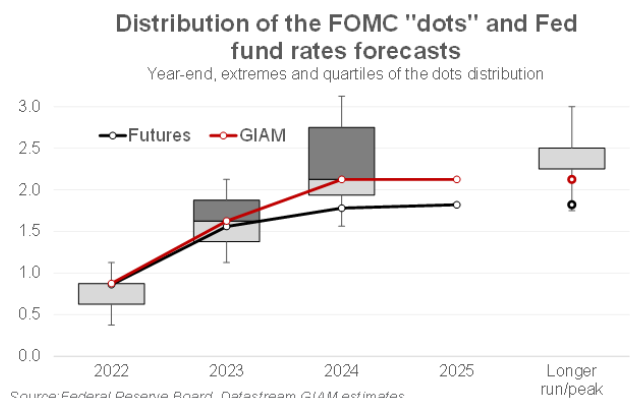
The zero-Covid policy in Asia is likely to **delay the normalisation of the global supply chain** and **fan near-term inflation pressure**. The market focus has rightly shifted from Covid to central banks, with the increasingly hawkish Fed likely to keep the **pressure on bond yields and financial volatility**. The Fed is likely to have its first rate hike in March, just after the end of net bond purchases. We expect a total of at least three hikes in 2022 (March, June and December) and the start of balance sheet reduction in H2. For the ECB, a rate hike in 2022 is highly unlikely in our view, but we see an almost 50% chance of a first hike already in 2023. Still, it decided to further reduce PEPP purchases in Q1 and to end them after March 2022.



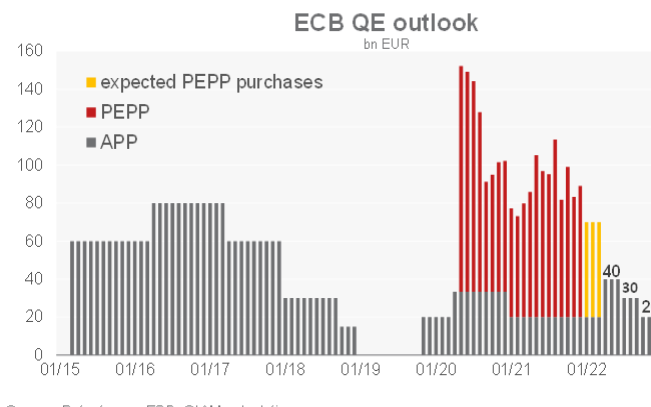
Source: Datastream, GIAM calculations



Source: Markit, Datastream, GIAM



Source: Federal Reserve Board, Datastream, GIAM estimates



Source: Datastream, ECB, GIAM calculations

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