

This has been one of the more turbulent weeks we've had recently. We hit an all-time high on the S&P 500 last week at \$4,743.83, and Thursday of this week we managed to close 3.5% off that high at \$4,577.10. Last week headlines were dominated by the Fed and Inflation, this week it's a new variant of COVID. The Omicron variant is a new variant that was first detected in south Africa and has also been identified in other parts of the world. Markets had a panic selloff as the facts surrounding the variant are still emerging. This is not unlike the Delta variant we experienced towards the beginning of this year. The primary concerns we've heard surrounding the Omicron variant are:

Will current vaccines work against it?

How contagious is it?

Are we going into lockdown again? If so, how bad will it be?

How much pressure will this put on the global supply chain capacity?

These are some scary questions that have been grabbing headlines and spooking markets. However, markets are notoriously emotional and tend to over correct to both the downside and the upside. Surevest being a data driven firm with sound investment philosophy, we will attempt to answer these questions and determine if the market is indeed overpriced.

First, are the current vaccines we have effective against the Omicron variant? The truth is we actually do not know yet. The virus has mutations that are causing alarm because they are indicative of being immune resistant. The vaccines will help to train our bodies to develop an immune response to the virus. However, the mutations on Omicron variant are on the spike protein which could potentially cause antibodies to not bind to it, which causes concern. But so did the other variants: Alpha, Beta, Lambda, Gamma, and Mu.¹ The truth is that while we are not experts on epidemiology, we are listening to the experts. What we are hearing is that the experts do not know because it is too new and there is not enough evidence to conclude one way or the other.

Addressing the second question about how contagious it is, we still do not know. However, scientists have reported that it must compete with the other variants like Delta. What made the delta variant so alarming was that its mutations made it more contagious. This means it could spread much faster. The mutations on the Delta variant make it more immune resistant.¹ However, this was also the case with the Mu variant which created a short scare before the Delta variant became the dominant strain. Again, putting our data analysis hats on; this does not mean we can draw a conclusion other than the threat level is inconclusive.

Now that we covered the major concerns, there are bits of positive news. There was a study regarding booster vaccines and their effectiveness against the prior variants. The study had positive results but, people in the study were not subjected to the Omicron variant. However, they were able to test blood samples of these people against the Omicron variant. This has shown to have a positive correlation with protection against infection.² Again, this is not conclusive and cannot be interpreted as an all clear. However, we can take this as a positive indication. Additionally, GlaxoSmithKline announced its Covid-19 antibody is likely effective against the Omicron variant. This is also a positive signal.

We try to be fairly politically neutral here at Surevest. We care more about what impact politics would have on the markets than anything else. On that note, there is a risk of further political divide if the Omicron variant does become more of a risk. This could lead to potential closures but, we are of the opinion if shutdowns do happen, they will not likely be as severe as 2020. There are other items on the political agenda, like infrastructure. We believe politicians on both sides of the isle will attempt to avoid anything that will hinder the economy. This is evidenced by congress passing a short-term extension of government funding, avoiding a shutdown.³

The sticking point in the spending bill was mandatory vaccines. The reason for the extension was for the politicians to continue debating this point. This is a positive sign as both sides have essentially said “agree to disagree” here. That’s our cynical view of a temporary extension not being so temporary. No government shutdown is good for the markets.

But what about the supply chain issue? Well, this is part of what many countries are dealing with and some of what is included in an infrastructure bill, at least domestically. What we believe you should be watching are two things. First the severity of Omicron as the story develops, this could be indicative of higher infection rates, and would be a negative for the markets. Second, we are tracking vaccination rates outside the U.S. as well as inside the U.S. Having a high vaccination rate should provide for better herd immunity and fewer days of work missed. i.e. workers along the supply chain.

To conclude, we do not believe a 3.5% drop in the S&P 500 is anything to worry about. As a matter of fact, it is healthy sign. This means investors are paying attention to the headlines and not being euphoric. It is also nothing so severe anyone would call the markets over sold. Much like you would add a potential stock you want to buy to a watch list, we believe the market has added this headline to a watchlist. This means no immediate action is needed but, it is something to follow as it could result in action being taken.

In addition, these types of pullbacks could be a good time to add to the market. For investors that have been sitting on the sidelines, we recommend consulting with your advisor about the appropriateness of a dollar cost averaging strategy.

This article is not intended to provide any medical advice or recommendations on what precautions you should or should not take regarding Covid. If you have questions about proper precautions that you or a loved ones should take, we recommend you consult with a medical professional or review the CDC guidelines surrounding COVID-19.

1. <https://www.washingtonpost.com/health/2021/11/29/how-bad-is-omicron-variant/>
2. <https://www.cnn.com/world/live-news/omicron-covid-19-variant-12-02-21/index.html>
3. https://www.wsj.com/articles/glaxos-covid-19-antibody-drug-found-to-be-effective-against-omicron-11638441696?st=k33da14nvtbdhh3&reflink=desktopwebshare_permalink