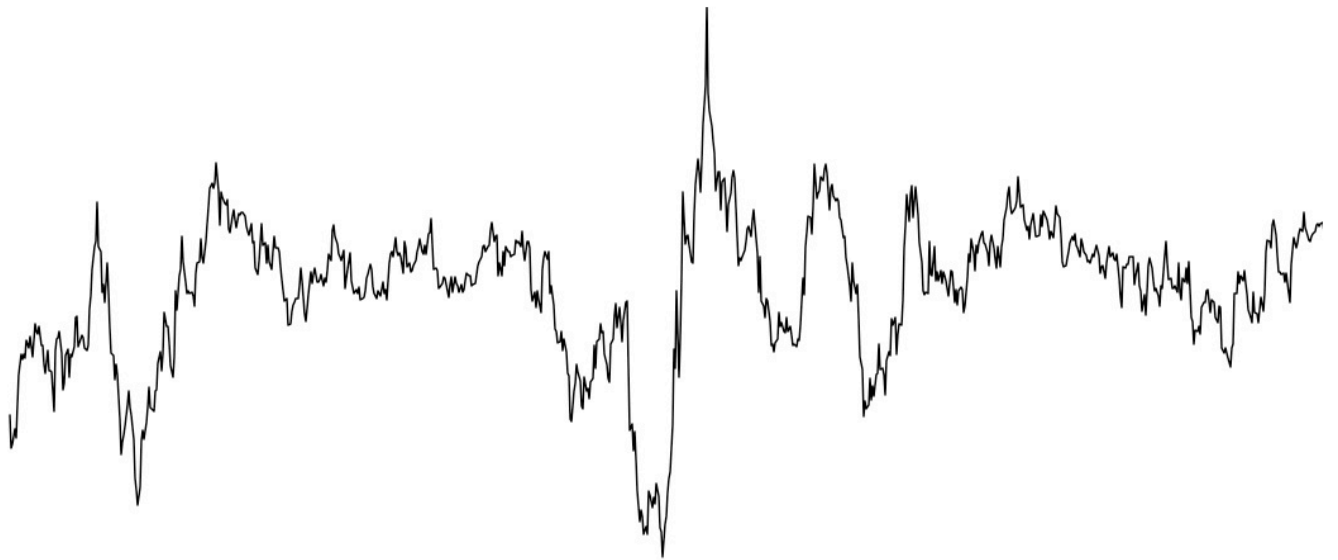


ALPHA SOURCES

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WHAT NOW?

Everyone has a plan until they get kicked in the nuts by a new virus variant, apparently. The speed with which markets deteriorated on Friday on the news of the B.1.1.529 variant—first detected in South Africa and Botswana, but now confirmed in both Europe and Asia—was telling. So is the swiftness with which many countries already are digging deep in the pre-vaccination toolbox of travel restrictions and, inevitably, domestic restrictions of some form. Indeed, even before the new variant, recently renamed ominously to Omicron, arrived on the scene, Europe was inching closer to

new restrictions. Austria and Netherlands were in full or semi-lockdown before Friday, and given the direction of numbers in the major economies, it was only a matter of time before more widespread restrictions were introduced. So, here we are; 18 months of rolling lockdowns and travel restrictions, trillion of dollars in public support, and around 70% of the adult population double-jabbed—and shall we say another 10% with immunity from previous infection?—and we're back to square one. Someone, somewhere, will soon have to start asking questions, but maybe not yet.



Never mind the fact that we currently have no evidence that Omicron is the vaccine-evading Covid variant everyone has feared, not to mention that we don't know whether it is more dangerous or virulent than the existing dominant strains. It is ironic that it has crushed the hopes of an end to Covid in a week [where Nordea has suspended two of its analysts](#)—Martin Enlund and Andreas Steno Larsen—for a controversial note on Covid vaccines. Enlund and Larsen questioned, in a deliberately incendiary fashion, the efficacy of the vaccines, the effect of booster shoots—even suggesting that these could be counterproductive—and the usefulness of vaccine mandates and passports.

I have publicly commented on this affair [here](#), but whatever reservations Nordea suddenly decided to have about two of its most prominent analysts—and to be fair, they are entitled to such reservations—the elephant in the room is stepping on my toe as I type. How can we *not* ask questions about the vaccines at this point?

I am not in the main talking about the *medical* effectiveness of the vaccines. I am unqualified to weigh in on this, though I will say that we have overwhelming evidence that they work. I have seen it with my own eyes, primarily via a weakened link between new cases and hospitalisations, exactly what the vaccines were intended for in the first place, to my mind at least.

The problem, which is now increasingly accepted as far as I can see is that the protection wanes over time, quite possibly quicker than we had initially hoped. But this, in itself, does not mean anything without important details. For example, even if the ability of vaccines to protect from infection wanes over time, they could still confer protection against severe illness. If that's the case, they could still be considered effective, in the medical sense.

What I *am* qualified to comment on, however, is the broader utility of the vaccines; namely their ability to give politicians and the public at large the confidence to put this miserable affair behind them. On that, the gradual move in Europe towards new restrictions in the past month was a warning shot across the bow, and Omicron seems to be the shell which have blown a hole in the hull.

This controversy hits close to home for me as a Eurozone economist. I am now asked to comment on, and evaluate, what European politicians mean when they talk about vaccine “mandates” and “compulsory” inoculation. Do they mean tacit coercion via strict vaccine passport rules—will two jabs be enough?—or do they mean that the police will be kicking in doors, syringes in hand?

If we can't talk about the obvious political and legal controversy about this, especially in Europe, we are putting ourselves in a difficult, and untenable position in my view.



It's always worth checking your own bias at the door in these situations. Mine goes as follows. We have managed to talk ourselves into a collective Stockholm Syndrome on Covid, which means that many now have an intellectual, or perhaps even commercial and political, vested interest in keeping the Covid-show going. This doesn't sit well with me.

More generally, consider this; **We are being asked to double down on the same tool—a booster shot with the same vaccine we've already been jabbed with twice—to get us out of the hole from which the vaccines have, based on the latest evidence, failed to get us out of in the first place.**

If you're telling me that the third shot is the clincher, the dose that makes the whole difference, I suppose I will need to listen to you. I certainly see the usefulness in boosting age groups where we know Covid hits particularly hard. I am equally willing to listen to the idea that [Merck's and Pfizer's antiviral pills](#) are game-changers in terms of preventing severe cases. If that's true, surely, we will soon be able to avoid Covid taking up this much space in societies? Or will we? I am skeptical, and I think anyone who isn't needs to take a step back and look at the game being played.

WHAT NOW?

I usually write about markets on these pages, so let me get that out of the way first. If you think everyone is overreacting to Omicron, all you have to do is to buy the S&P 500 and sell Eurodollars at the open on Monday morning. I am not sure that I am that brave. According to the WHO and Pfizer, it will take two weeks before we have clear evidence on whether Omicron is as grim a bug as we fear. Between now and then markets and politicians will have to make assumptions, and based on the initial evidence, they're jumping the gun.

It is interesting to consider the possibility that this is a storm in a teacup. It is possible that when scientists have had a time to look at this thing, they will conclude that it isn't such a bad bug after all. That, presumably, would imply less of an initial overreaction in the future to new nasty-looking variants. I am not certain that this is the lesson we'd draw.

In the meantime, politicians will press ahead with the tools they know best; restrictions, boosters and stricter vaccine passports. I hope they work, as quickly as possible. But even if we beat Omicron, we're just buying time until the next one, to which my question would be the same; what now?