CERITY PARTNERS®

November 29, 2021

# Oh My Cron!

*An update on the markets' response to Omicron, the new Covid-19 variant.*

On Thanksgiving evening, the World Health Organization announced that Omicron, a mutation of the Covid-19 virus, is a variant of concern. The next day, stock market futures went significantly red on this news. By the end of the trading day Friday, major U.S. indices closed more than 2% down, crude oil futures plunged 10%, and the 10-year U.S. Treasury bond yield dropped a precipitous 16 basis points. The markets' response implied that Omicron may cause a significant slowdown in economic growth. Investors cannot be faulted for smacking their foreheads as if to say, "not again!"

## As Covid rears its ugly head once again, what should we expect from financial markets in the last month of 2021?

To answer that question, it will be helpful to consider that Covid-19 has been a major force in the global economy for almost two years now. During that time, several waves of infections, hospitalizations, and, tragically, deaths, have taken place. The Delta variant of the virus wreaked havoc on the economy this past summer, closing factories globally, causing travel restrictions, and generally hobbling the animal spirits that fuel economic growth.

Financial markets reflected the slowdown in growth. What is interesting to note with Omicron is that the financial markets never fully recovered from Delta's effects. The internals of the U.S. stock market provide some markers to prove those assertions.

During the entire Covid crisis to date, whenever the virus has become more concerning, the stock market has tended to concentrate its gains in large cap growth and discretionary stocks, typically the FAANGMA stocks of Meta Platforms (new Facebook), Amazon, Apple, Netflix, Microsoft, and Alphabet (Google). These stocks comprise more than one-quarter of the market-cap in the S&P 500. They are regarded as defensive stocks because when growth becomes scarce - as in a potential Covid-induced economic slowdown - these are the companies most likely with continued earnings growth. Comparing the S&P 500 headline or market-cap weighted index to the equally weighted S&P 500 can show when investors are flocking to, or heading out of, these defensive stocks.

The following three graphs show how the market-cap weighted and FAANGMA-heavy S&P 500 outperformed the equally weighted and broader version of the S&P 500 when Covid first hit in 2020. Once Covid vaccines were announced, the equally weighted S&P 500 index outperformed as cyclical stocks took hold. Finally, since the Delta variant was named, the defensive market-cap weighted index took over once again.

**LEG 1:** Covid Hits and Defensive Stocks Outperform

(INDEX) S&P 500 Equal Weighted Index - Price — 93.04
(INDEX) S&P 500 - Price — 101.21

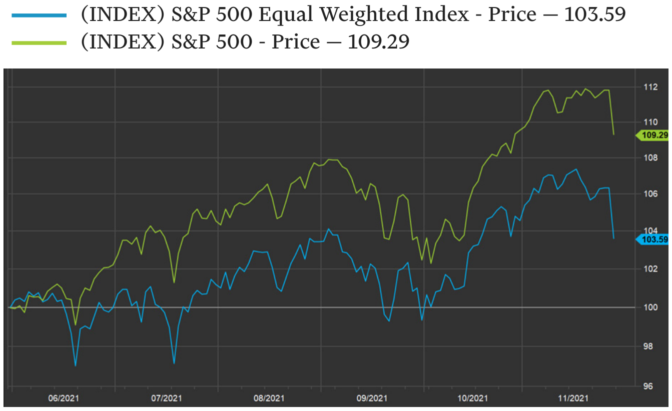

Source: FactSet

**LEG 2:** Vaccines Are Announced and a Broad Cyclical Rally Takes Over

(INDEX) S&P 500 Equal Weighted Index - Price — 140.35
(INDEX) S&P 500 - Price — 128.57

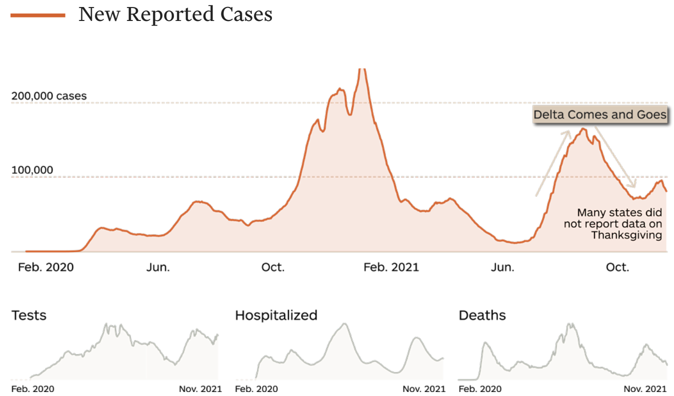

Source: FactSet

## LEG 3: Delta is Named – Comes and Goes; Investors Favor Defensive Names Once Again




Source: FactSet

## Coronavirus in the US - Latest Map and Case Count



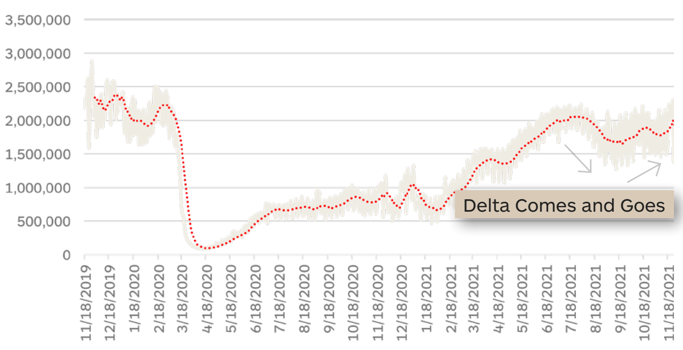

Source: The New York Times

The intriguing implication in these charts is that the markets never really bought into the fading of the Delta variant. The third leg shows that defensive stocks rallied and did not give back any performance as Delta's impact waned.

**So, did Delta really wane?**

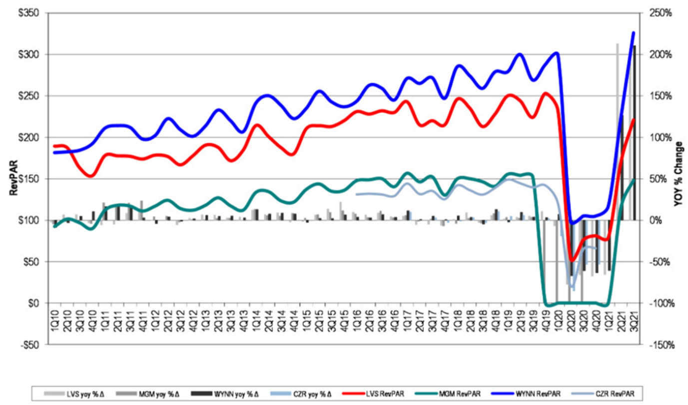
A quick look at the global Covid case count would say yes. So would passenger counts from the Transportation Security Administration (TSA) and Las Vegas room rates.

## US Airport Passenger Throughput




Source: TSA

## Las Vegas Hotel Revenue per Available Room (RevPAR) and Growth Rate by Company




Source: JPMorgan

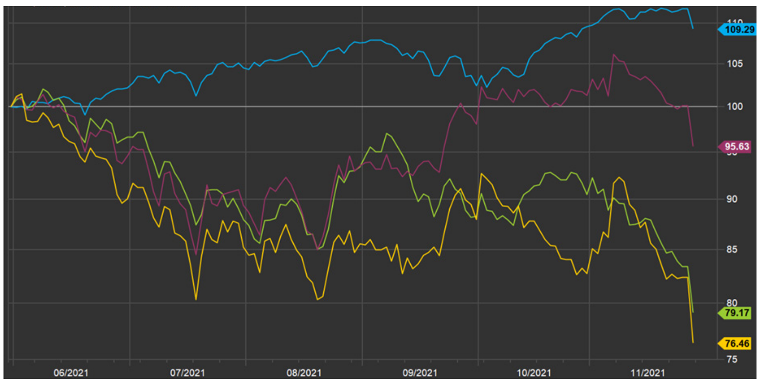
The empirical evidence above indicates that Delta's impact on the economy has meaningfully waned. But the stocks most affected by economic slowdowns have not recovered.

On the following page, we show exchange-traded funds for the airline, hotel, and gaming industries. Since Delta was named, these sectors have been caught in a vicious downdraft.

If the markets never fully recovered from Delta, then maybe Omicron is already priced in. That might mitigate any further downturns in the stock market. More importantly, there are now many vaccines and treatments for Covid. Recent pills from Pfizer and Merck dramatically improve hospitalization and fatality rates. It will take time to see if current vaccines and treatments will effectively combat Omicron. However, even if they don't, the scientific and healthcare communities have a running head start on combating Covid. For example, the following news headlines from Moderna catches our eye.

### Exchange Traded Funds: Hotel, Gaming & Airline Industries

- (INDEX) S&P 500 - Price — 109.29
- (INDEX) AdvisorShares Hotel ETF - Price — 95.63
- (INDEX) VanEck Gaming ETF - Price — 79.17
- (INDEX) US Global Jets EtF - Price — 76.46



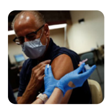

Source: FactSet

### GOOGLE SEARCH 11/29/2021: Moderna Omicron

CNBC

Moderna says an omicron variant vaccine could be ready in early 2022

6 hours ago



AXIOS

Moderna says updated vaccine for Omicoron coud be ready in early 2022

5 hours ago

It's worth noting that when economic, financial, and geopolitical crises occur, they seldom are quickly over. Aftershocks inevitably follow. The peripheral countries crisis 10 years ago threatened to break apart the European Union for years. The US-China trade war is well over four years old. It should not be surprising, therefore, that Covid continues to reverberate in the markets. However, as is always the case, humankind adapts and overcomes.

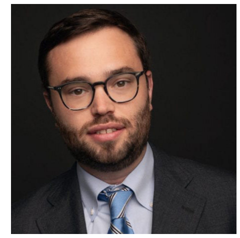
That seems to be the likely case with Omicron. In short, the emergence of Omicron is not a catalyst to cause a change in investment allocations such as how much to invest in stocks, how to allocate between investment styles, or where to invest geographically.

We have not even touched on the substantial positives currently facing the economy and financial markets: growing corporate profits, healthy job gains, infrastructure spending, and thawing supply chain bottlenecks are an incomplete list. All merit keeping intact current investment stances.

We will close by showing this picture of Saturday's Michigan-Ohio State football game. This is not an image of an economy or a society that will likely be shut down by the latest episode of Covid. Nor is the current environment one in which investment risk needs a reduction. As always, we and your advisors at Cerity Partners look forward to discussing this further with you as events unfold.

**Jim Lebenthal**
*Partner & Chief Equity Strategist*

**Ben Pace**
*Partner & Chief Investment Officer*



**Tom Cohn**
*Partner & Director of Research*

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