Although Omicron clouds the outlook for 1Q22, the cyclical risks are low

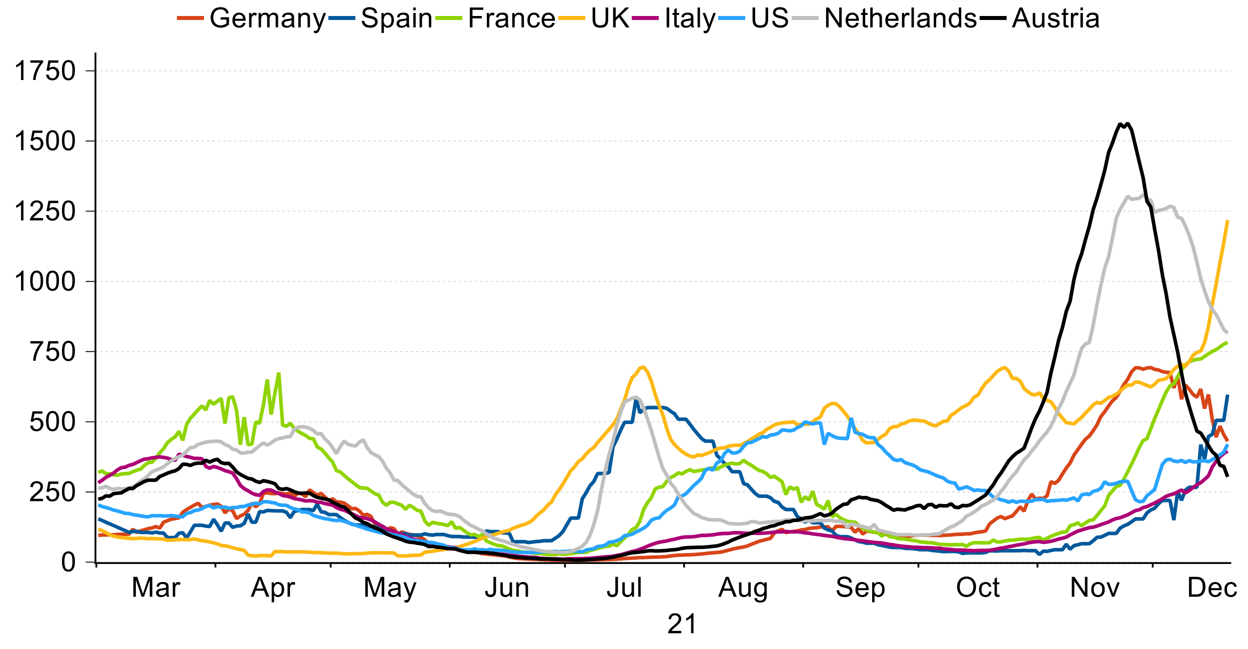
The growth in case numbers in Europe in recent weeks is attributable to Delta…

The **rise in case numbers observed in many European countries in recent months** (with Germany, Netherlands and Austria engulfed by quite-concerning waves) **is attributable to the Delta variant, with the countries with lower vaccination rates hit the hardest**.

…now the Omicron strain - apparently more contagious - is coming into play, heightening health risks

Now the Omicron variant is coming into play. Initial studies point to faster transmission, although, as the WHO and EMA have warned, further data are still needed. A lot of the information at hand comes from South Africa, where it was first detected and where most cases have been identified to date. According to the most recent ECDC data[1], the new variant has been identified in 85 countries around the world. In the European Union, according to the ECDC, the initial cases detected were found mainly in people who had travelled from Africa. Now, however, a growing number stem from local contagion (cases dating to before South Africa alerted the world have also been identified), such that we are now seeing community transmission in Europe. The ECDC has also stated that so far the EU has not notified any deaths of people infected with the Omicron variant (it is important to note, however, the time lag between transmission and death) and that the cases identified have been either asymptomatic or presented mild symptoms; **nevertheless, this information, which is still very limited and preliminary, should be analysed with caution**.

Exhibit 1. Daily confirmed cases per million inhabitants (7-day moving average)



Source: Afi, Our World in Data

The recent trend in the pandemic in the UK has the rest of the world on edge

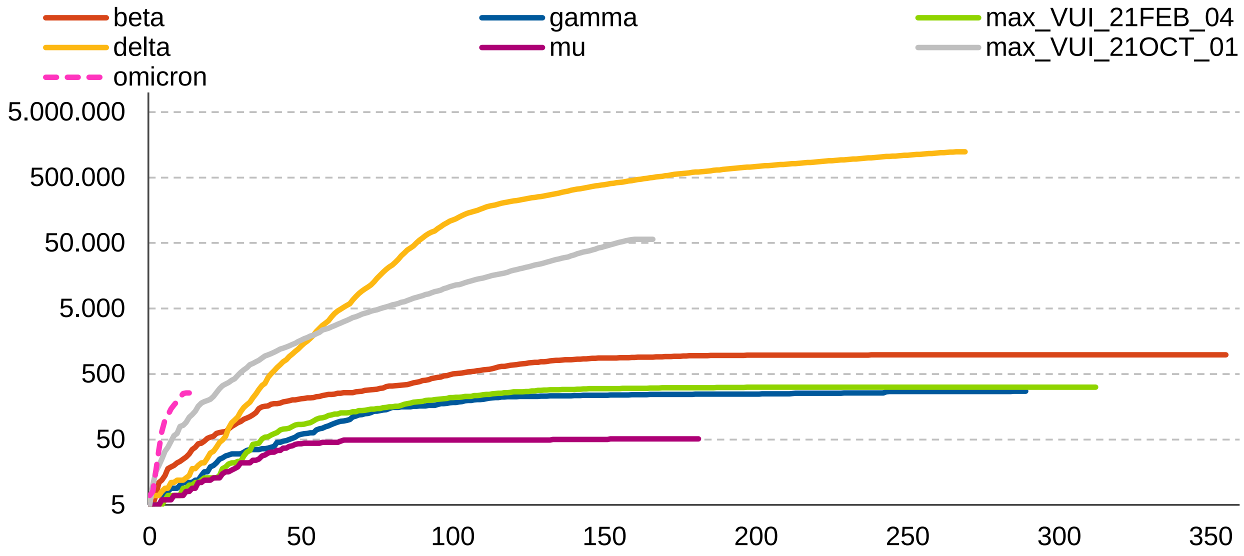
The UK - a country with significant sequencing capabilities - **has already detected numerous cases of Omicron, which is spreading much faster than Delta**, leaving the country to believe that the latter variant will be displaced within 2 to 4 weeks. **It has also analysed data for patients[2] found to be infected with Omicron, noting, however, that the sample is too small to yield robust conclusions**. Among other things, according

[1] https://www.ecdc.europa.eu/en/news-events/epidemiological-update-omicron-data-16-december

[2] https://www.gov.uk/government/news/covid-19-variants-identified-in-the-uk

to the preliminary data, it looks as if protection against the new variant increases sharply after a booster shot, which is thought to provide 70%-75% protection against symptomatic infection (it is unclear for how long, however). There are still no data as to the vaccine's effectiveness against serious illness, which will take several weeks to amass. The latest report published by the British authorities notes that "there is currently no evidence of increased reinfection risk at the population level, but preliminary analyses indicate approximately three- to eight-fold increased risk of reinfection with the Omicron variant".

Exhibit 2. Cumulative cases in England of variants indexed by days since the fifth reported case as of 5 December 2021 (log scale)



Source: Afi, UK Health Security Agency[3]

The suspicion that it causes milder illness mitigates its enhanced transmissibility, raising questions about the scale of the rise in hospitalisation

The data available to date suggest that although the illness it causes may be milder than that seen with Delta, Omicron's greater transmissibility could lead to a significant jump in hospitalisations: **a considerable increase in case numbers will increase the probability of infected patients requiring hospital care, even if the illness is ultimately less severe and fewer people succumb to it**. **That is why it is important that the health authorities be prepared, poised to prevent hospital saturation**.

Some European countries have already introduced restrictions, which could get extended or tightened

The strict measures some countries have had to introduce in recent weeks due to adverse health situation are not due to the Omicron strain, but rather the need to staunch the transmission caused by the Delta variant. The biggest change introduced by the European countries in response to the Omicron variant has been to close off borders to several African nations.

The studies suggest considerably lower vaccine effectiveness against Omicron, prompting the need to accelerate the rollout of

Several studies released to date suggest that a third dose of the vaccine could provide a boost in protection against Omicron[4]; one study even questions the effectiveness of booster shots against transmission (not against severe illness), but the sample is very small[5].

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040076/Technical_Briefing_31.pdf

[4] Refer to: https://www.medrxiv.org/content/10.1101/2021.12.02.21267198v1.full.pdf o https://khub.net/documents/135939561/430986542/Effectiveness+of+COVID-19+vaccines+against+Omicron+variant+of+concern.pdf/f423c9f4-91cb-0274-c8c5-70e8fad50074

[5] https://t.co/jqVgPoQRct

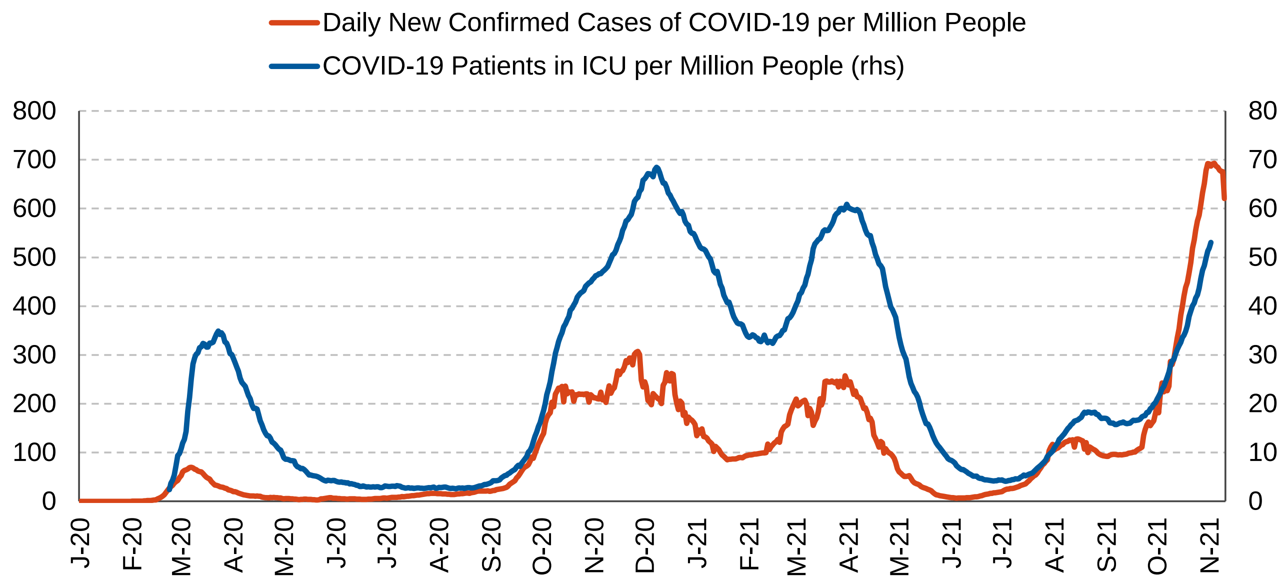
booster shots

Pfizer[6] has said that a booster shot of its vaccine can neutralise Omicron (according to initial lab results). That company is nevertheless continuing to work to tweak its vaccine for the new variant with the hope of being able to distribute it in March 2022 (although the EMA would need a few months to approve it). **It is also possible that vaccinated people with two doses continue to be protected against serious illness thanks to their T-cells, which are not affected by the variant's mutations**.

The outlook has deteriorated as a result of Omicron, but the data pertaining to the last wave (Delta) are encouraging in terms of the reduction in the infection-to-hospitalisation rate

While it is true that the preliminary data point to a significant reduction in vaccine effectiveness, the data for the last wave (Delta) are encouraging, as even in countries with relatively low vaccination rates (such as Germany, where less than 70% of the population is fully vaccinated), the rate at which infections is translating into ICU stays has come down significantly.

Exhibit 3. Daily COVID-19 cases and ICU patients in Germany (7-day moving average)



Source: Afi, Our World in Data

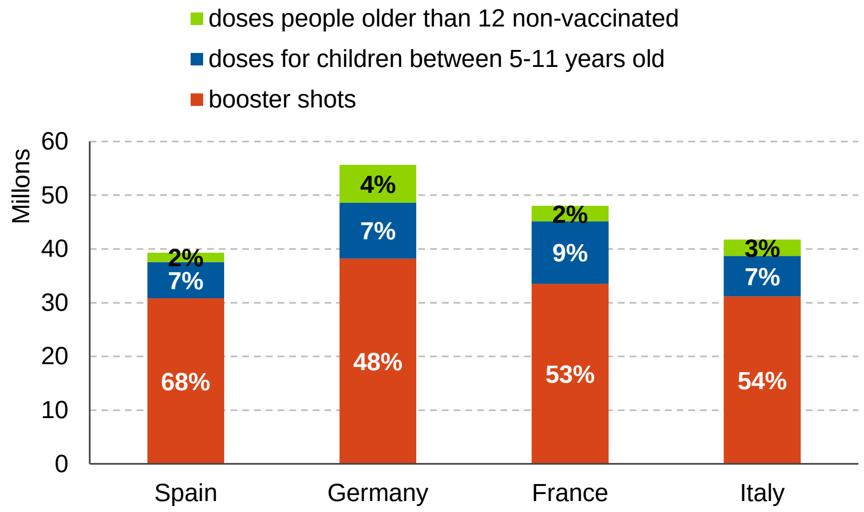
Vaccines set to remain a key component of the fight against COVID-19…

We believe that vaccines will remain a cornerstone of the European countries' anti-COVID strategy, targeting both those who have been reluctant to get a vaccine and those who will need to get a booster shot. Making a few general assumptions,[7] using the information available for the four major eurozone economies, **we believe that the national health systems will be able to meet the need to once again step up vaccination over the coming months**, so long as there are no supply issues, as was the case in the second half of the year, and assuming resources are beefed up to enable ongoing mass vaccination, as happened earlier this year.

[6] Israel has also published results along these same lines: Israeli study finds Pfizer COVID-19 booster protects against Omicron | Reuters

[7] To simplify, we assume that a booster shot is given after six months and will be extended to the entire population in the counties (such as Spain) in which boosters are still limited to certain groups, despite the fact that the eligibility criteria vary from one country to the next and it is probable that the prevailing criteria will change (as we saw this week in Denmark where the health authorities decided to cut the time between shots from 6 to 4.5 months), in light of studies that show that protection wanes month after month and considering the fact that the booster shots take time to take effect. We assume that only a quarter of the people over 12 who have not yet been vaccinated decide to be vaccinated.

Exhibit 4. Millions of doses needed until March 2022 for the four largest eurozone economies*

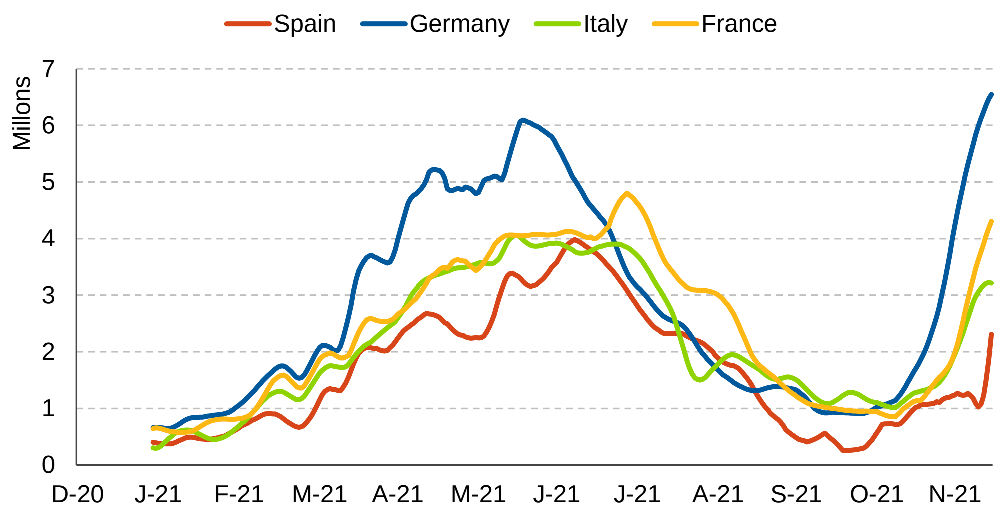


Source: Afi estimates based on Our World in Data and Eurostat data. * The column headings indicate the number of people as a % of the total population to be vaccinated.

…with their health systems capable of meeting the looming vaccination requirements in the months ahead

To cover the estimated vaccination requirements, the national health services would have to administer 2.5 million shots a week in Spain, 3.5 million in Germany, 3 million in France and 2.6 million in Italy between now and the end of March. Those figures look highly doable in light of the weekly number of vaccines administered in the EU since initial rollout. Germany, for example, managed to administer over 5 million jabs a week for several weeks in a row, with the other countries operating somewhere between 4 and 5 million.

Exhibit 5. Doses administered by country (millions, trailing 7-days)



Source: Afi, Our World in Data

The figures foreshadow a slowdown in economic activity in 4Q21 due to the restrictions introduced to stem Delta, high energy prices and supply chain disruption…

In short, **the increase in restrictions due to the spread of Delta had already foreshadowed a slowdown in growth towards the end of 2021**, a trend we thought could carry over to the start of 2022. However, given the tightening of restrictions in some countries and the possibility that they may have to be further tightened or extended in time (the measures in place until now should also work to slow the spread of Omicron) in the following weeks as a result of the surge in cases being observed in some countries, coupled with the **possible impact of Omicron, the slowdown in growth may well last for much of 1Q22**, considering that such measures tend to take several weeks to take effect. Although the impact will vary from one country to the next, as we have seen throughout the economic crisis triggered by COVID-19, we don't expect it to be as significant as that observed at year-end 2020 and in 1Q21, as the starting point is different: (i) a lot of the population is vaccinated (and many are already receiving booster shots); (ii) many people have already been infected; (iii) health professionals are more familiar with the illness, enabling them to treat patients more effectively; and (iv) in many countries the measures being taken are less stringent than in the past. By the same token, if the health risk is lower (albeit variable depending on the percentage of a given population that is vaccinated/immunised), the restrictions will be less severe (than those taken at the end of 2020 and in 1Q21), suggesting that the impact on economic activity should similarly be smaller.

… which could spill over to 1Q22 if the worst-case Omicron scenario materialises, although the impact should be smaller than that of previous waves…

Nevertheless, our outlook for 12 months' time remains intact, so that, **despite the downturn in expectations for the first quarter of next year, we are not cutting our forecasts for 2022**: we believe that the loss of growth forecast for the first part of the year will materialise during the remainder of the year, particularly in the second half.

… without, however, altering our outlook for 12 months' time.

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