



# Omicron: concerning, but not panicking

**Ahmed Riesgo**

Chief Investment Officer  
Insigneo Financial Group

## Omicron: concerning, but not panicking

Although the omicron variant should continue to be a source of uncertainty and volatility over the near term, we do not expect the downtrend to be long-lasting. Omicron could be a mild drag on economic growth, but not a material one; inflationary impact could be more relevant.

In sum, still-protective efficacy levels from current vaccines, new vaccines quickly on the horizon, better and improving treatment options, and improved adaptive responses by countries and individuals, should equate to slightly lower growth (versus *sans* omicron), but not a material reduction in economic activity because both policy and behavior have become significantly less sensitive to virus spread.

Despite the risks posed by the new variant, global growth should remain well above trend next year. We still expect inflationary pressures to recede in 2022, but the resurgent virus is an upside risk, especially in the US.

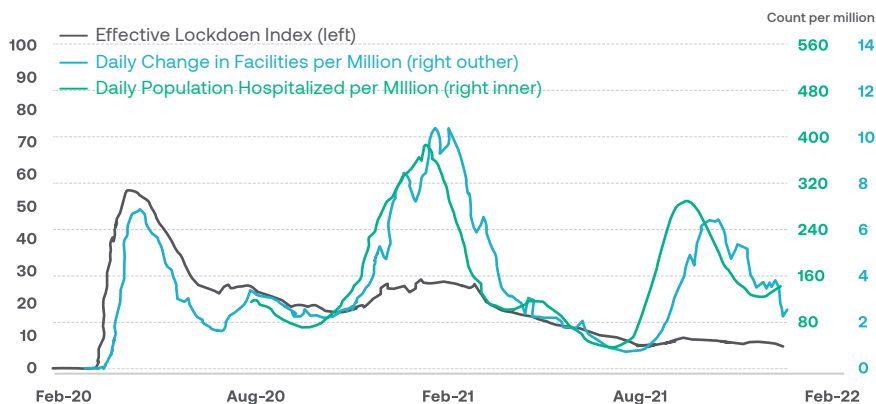
Lately, Fed officials have been warning that the pace of tapering of asset purchases may be accelerated at the December meeting. If so, the market may have to grapple with a Fed rate hike by the early summer of 2022.

We remain overweight equities going into next year but expect mid-single digit returns in US bourses, with slightly higher expectations for Europe and other markets outside of the US.

Although the omicron variant should continue to be a source of uncertainty and volatility over the near term, we do not expect the downtrend to be long-lasting. So far, the early contagion data we have received

**Policy and behavior have become significantly less sensitive to virus spread**

Source: US Centers for Disease Control and Prevention, Goldman Sachs Investment Research



tells us that this variant is very contagious and should likely become the dominant variant, supplanting Delta soon. That said, the early data also point toward the vaccines providing some form of protection against infection. This comports with the history of virology and epidemiology where the natural selection pressures on virus evolution tend to be more transmittable, but less deadly (or vice-versa). **If the current vaccine efficacy remains above the 50 to 60% threshold, which is the case for the seasonal flu, then investors can breathe a sigh of relief.** Moreover, major companies like Pfizer, Moderna, and Merck have already asserted that new vaccines created specifically for the omicron mutation are already on the way and should be available during Q1 2022. We also must recognize that treatments have drastically improved as well. Plus, we know that lockdowns are the cause of the economic damage, and not the virus, as many countries and consumers have learned to adapt quite well to an endemic Covid environment. In sum, still-protective efficacy levels from current vaccines, new vaccines quickly on the horizon, better and improving treatment options, and improved adaptive responses by countries and individuals, should equate to slightly lower growth (versus sans omicron), but not a material reduction in economic activity because both policy and behavior have become significantly less sensitive to virus spread.

— “If the current vaccine efficacy remains above the 50 to 60% threshold, which is the case for the seasonal flu, then investors can breathe a sigh of relief.”

Although, we do not expect omicron to have a significant effect on US Real GDP growth next year (i.e., impact be < -0.50%), there is a high probability that it could worsen the inflationary landscape over the next several months, and thus, enhance the Fed’s hawkish tilt. In our view, the policy response to the virus in the US has a greater impact on aggregate supply than aggregate demand. This occurs over two main pathways. First, it could exacerbate goods supply shortages in other countries if they increase restrictions such as Asia’s zero Covid tolerance policy. Second, it could further depress labor supply in the US by keeping those on the fringes of the labor pool from fully returning to work and prolonging the labor shortage. **This last concern has been one of the most surprising (and long-lasting) effects of the pandemic: American workers have not fully returned to the labor force.**

**If so, only higher wages may be able to do so.** In turn, this could unmoor long run inflation expectations and force the Fed's hand, even if it is reluctant to do so. Lately, Fed officials have been warning that the pace of tapering of asset purchases may be accelerated at the December meeting. If so, the market may have to grapple with a Fed rate hike by the early summer of 2022.

Despite the risks posed by the new variant, global growth should remain well above trend next year. We still expect inflationary pressures to recede in 2022, but the resurgent virus is an upside risk, especially in the US. We remain overweight equities going into next year but expect mid-single digit returns in US bourses, with slightly higher expectations for Europe and other markets outside of the US. **While the Fed is abandoning the "transitory" language very quickly, the situation is different in Europe.** The Continent has structural demographic and productivity problems, as well as a more deflationary Covid policy response that should keep inflationary pressures there more at bay. The ECB should remain more accommodative than its American counterpart.

For now, we are retaining our barbell, balanced style approach between Growth (defensive) and Value (cyclical) as a precaution given elevated valuations and heightened pandemic risks. On the fixed income

side, we will retain below-average interest rate duration in our sleeves, as we believe that the path for rates is a step function of gradually successive higher highs and higher lows. **The Chinese sovereign, quasi-sovereign, and investment grade bond market remain the most attractive major fixed income bond markets in the world, in our opinion.** For spread, we continue to prefer high yield over investment grade, even though we do not think that spreads will widen significantly until 2023. Since the US Dollar is a momentum currency, it could remain resilient over the next few months as the omicron variant spreads through the world and the markets grapple with Fed tightening, but once that countertrend rally is exhausted, the structural weakness of the US Dollar should reassert itself and weaken on a trade-weighted basis. Lastly, we expect commodities to remain well bid over the long-term as the new super cycle is still in its early innings. Oil should rebound after this consolidation period, and the industrial metals will resume their upward trajectory given structurally tight supply dynamics, resulting in physical deficits in many markets, and China's renewed stimulus.

# House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
<b>US Equities<sup>1</sup></b>	NEUTRAL	OVERWEIGHT
<b>European Equities</b>	OVERWEIGHT	OVERWEIGHT
<b>Japanese Equities</b>	OVERWEIGHT	NEUTRAL
<b>Emerging Market Equities</b>	NEUTRAL	OVERWEIGHT
<b>Chinese Equities</b>	OVERWEIGHT	OVERWEIGHT
<b>US Treasuries<sup>2</sup></b>	NEUTRAL	UNDERWEIGHT
<b>Investment Grade Fixed Income</b>	NEUTRAL	NEUTRAL
<b>High Yield Fixed Income</b>	NEUTRAL	OVERWEIGHT
<b>Emerging Market Sovereign</b>	NEUTRAL	NEUTRAL
<b>US Dollar</b>	NEUTRAL	UNDERWEIGHT
<b>Energy<sup>3</sup></b>	OVERWEIGHT	OVERWEIGHT
<b>Precious Metals</b>	NEUTRAL	OVERWEIGHT
<b>Cash</b>	NEUTRAL	NEUTRAL

<sup>1</sup> Relative to global equities in USD

<sup>2</sup> Relative to aggregate fixed income markets in USD

<sup>3</sup> Relative to an overall commodity allocation



## Important Legal disclaimer

This document has been prepared by Insigneo Securities, LLC (“Insigneo”) solely for use by you for general information only and does not contain and is not to be taken as containing any securities advice, recommendation, offer or invitation to subscribe for or purchase or redemption of any securities regarding Insigneo. Copies of this document may not be sent to jurisdictions, or distributed in or sent from jurisdictions, in which this is barred or prohibited by law. The information contained herein shall not constitute an offer to sell or the solicitation of an offer to buy, in any jurisdiction in which such offer or solicitation would be unlawful prior to registration, exemption from registration or qualification under the securities laws of any jurisdiction. This presentation contains specific forward-looking statements, e.g. statements which include terms like “believe”, “assume”, “expect”, “target” or similar expressions. Such forward-looking statements represent Insigneo’s judgments and expectations and are subject to known and unknown risks, uncertainties and other factors which may result in a substantial divergence between the actual results, the financial situation, and/or the development or performance of the company and those explicitly or implicitly presumed in these statements. These factors include, but are not limited to: (1) general market, macroeconomic, governmental and regulatory trends, (2) movements in securities markets, exchange rates and interest rates, (3) competitive pressures, and (4) other risks and uncertainties inherent in the business of Insigneo. Insigneo is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law or regulation. The financial and other data contained in this presentation has not been independently verified by us and accordingly, we assume no responsibility for such information and other data being true and accurate. The information provided herein is not an offer to buy or sell or the solicitation of an offer to buy or sell any investment product. Performance may be volatile, and an investor could lose all or a substantial portion of his or her investment. Brokerage and investment advisory account investments are subject to market risk including loss of principal. Securities offered through Insigneo Securities, LLC, member FINRA, SIPC. Investment advisory products and services offered through Insigneo Wealth Advisors, LLC and Insigneo Advisory Services, LLC, both investment advisors registered with the SEC. To learn more about its business, including its conflicts of interest and compensation practices for the Broker Dealer please go to [www.insigneo.com/en/disclosures](http://www.insigneo.com/en/disclosures) and any conflicts related to their advisory services, please see their Form ADV and brochure which can be found at Investment Advisor Public Disclosure website (<https://adviserinfo.sec.gov/>)