



# Vaccine News Shakes Up the Stock Market

November 11, 2020

by Schwab Center for Financial Research  
of Charles Schwab

Investors looking past the presidential election for the next market-moving news break were rewarded earlier this week when Pfizer announced that it had made some headway in the fight against COVID-19. Word that the drug-maker's vaccine had proved 90% effective in preventing the virus during clinical trials electrified the markets Monday, with both the S&P 500® Index and Dow Jones Industrial Average touching historical highs during the day.

With the United States continuing to report record high numbers of cases—daily case tallies have topped 120,000 in recent days, and more than 10 million cases have been reported in the country so far—having an effective vaccine would be very big news indeed.

Beyond the obvious benefits to public health, a major hope, particularly among investors, is that with a vaccine in hand, the country could be on the verge of unleashing an economy that had already turned in a very good performance in the third quarter. U.S. gross domestic product grew more than 33% on an annualized basis in Q3 compared with the previous three months, thanks in part to big surges in consumer spending and housing—though, those results also benefited from the fact they're being compared with exceptionally depressed economic data from Q2.

Meanwhile, the economy continues to add jobs, if at a slightly slower pace than over the summer; corporate earnings are showing signs of improvement; the Federal Reserve is committed to providing monetary support; and Congress could come together to pass additional fiscal stimulus. While there are no guarantees when it comes to the markets, investors apparently do see reasons for confidence.

## Sectors and industries

An improving macroeconomic picture will mean different things to different parts of the stock market. Some of the big gainers from the vaccine news Monday were in sectors that had faced exceptional challenges in the early days of the pandemic, including airlines and cruise operators. The energy sector also had a good day, thanks to expectations of improving demand for fuel if the virus is routed.

Some consumer discretionary stocks that were thought to benefit from the pandemic—such as Netflix and Amazon—had a bumpier ride.

Looking past these immediate swings, the health care sector looks set to outperform, though perhaps not for reasons one might expect at a time when potential vaccine breakthroughs are in the news.

"Some companies within the biotech and pharmaceutical industries do stand to benefit if they produce tests and vaccines for the novel coronavirus, but at high cost and potential delays of other trials," says David Kastner, senior investment strategist at Charles Schwab Investment Advisory. "More broadly, job losses and pandemic fears prompted many people to cancel elective procedures and delay routine care, creating pent-up demand for such procedures, drug sales, medical equipment, and diagnostics. As economies reopen, we're seeing the COVID impact reverse, and indeed, the earnings outlook has improved."

David adds that the health care sector also enjoys strong balance sheets, with cash for dividends, stock buybacks and mergers and acquisitions; attractive valuations; and positive demographic trends, including an aging global population and a growing middle class in emerging markets. The election may also have removed a source of uncertainty about future changes to the health care industry, given the prospects for a divided Congress.

That said, hospitals have struggled with the high cost of dealing with the pandemic and job losses could continue to hurt demand for health care insurance.

A strengthening economy would also be good news for finance stocks, as growth could mean increased demand for loans and perhaps less risk of a massive surge in defaults due to the slowdown. Longer-term, rising growth rates could also

mean higher long-term interest rates, which could boost revenue from interest rate margins on loans.

## **Big picture**

Of course, success in investing is generally a more personalized matter than the relative performance of a particular stock, sector, or index over a relatively short period of time—so expectations for particular slices of the market shouldn't be taken as a recommendation to pile in. Investors should aim to have a diversified portfolio covering broad chunks of the market, putting themselves in a position where they could potentially benefit no matter which sector is outperforming during a given period.

## **Important Disclosures**

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

The policy analysis provided by the Charles Schwab & Co., Inc., does not constitute and should not be interpreted as an endorsement of any political party.

Diversification cannot ensure a profit or protect against a loss in any given market environment.

Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve.

All corporate names and market data shown above are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation of an offer to buy any security.

Investing involves risks, including loss of principal.

Past performance is no guarantee of future results and the opinions presented cannot be viewed as an indicator of future performance.

Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. For more information on indexes please see [www.schwab.com/indexdefinitions](http://www.schwab.com/indexdefinitions).

(1120-0EWX)