

Omicron and China Update

According to the latest CDC numbers, **over 73% of COVID in the US is now due to Omicron**. That's up from just 1% two weeks ago. Yet, as Johns Hopkin's infectious disease specialist, David Dowdy, pointed out on the [twitters](#) yesterday, "Despite the potential Omnicron takeover, cases during that time have only increased 20%, and hospitalizations are flat."

This is good news...

The data appears to be confirming what we've seen in South Africa. Which is that Omicron is highly contagious but *much* less severe.

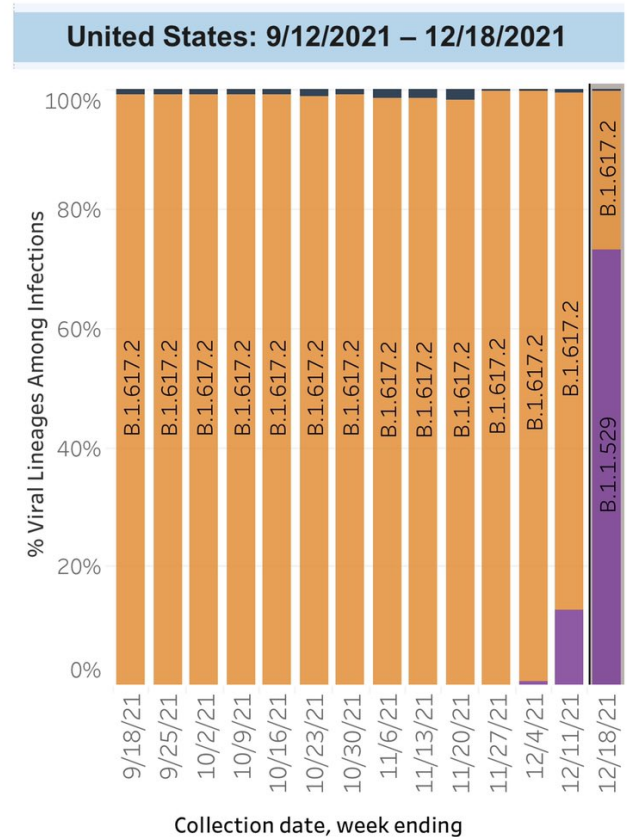
I'd like to take this time to call out two long-time Collective members, @jdauidr and @AC who've been and continue to be, an invaluable resource to our group throughout this pandemic. Both work in healthcare (@jdauidr here in the US and @AC in the UK) and have been on the frontlines of this thing from the get-go.

Their regular boots on the ground updates have been an incredible help in cutting through the noise and often terrible reporting on the subject. We all owe a big thanks to you two.

@jdauidr was kind enough to share with us his latest take which is in line with what we just discussed above. Here are his words with emphasis by me.

Hello and happy holidays. Here's an update from the covid in-patient trenches of [redacted: major east coast city]. I just got off a week covering the ICU, and have some observations.

Those of you who recall my reports from the original surge will remember that I did not sugar coat the observed exponential rise in hospitalizations and ICU admissions well before the parabolic death rate started hitting the news. In fact, I was trying to articulate that the



main-stream narrative at the time was well behind and completely disconnected from the pure carnage at the bedside that I was seeing, and all the talk at the time of “it’s just the flu” was just nonsense (and ultimately attributable to the CDC’s over-estimating model of annual flu deaths).

Well... again we have much the same degree of disconnect between the mainstream narrative and bedside reality, though fortunately this time, in the opposite direction. At our peak in the initial surge, we had over 150 covid confirmed ventilated patients in ICU level care critically ill in our facility. As of today, we have 6, despite covid positivity rates skyrocketing in the community. Two weeks ago, we also had 6.

About half of those are transfers from other facilities for ECMO which is an intervention that we provide and other city public hospitals do not. Including those 6, our total in-patient covid confirmed cases number 41. Two weeks ago they were 32, and in between have peaked at 46. I don’t know what our peak surge in-patient covid count was, but it had to be well over 350.

Without getting into precise specifics, my subjective observations are the following: About 25% are logged in the system as “breakthrough” infections. That is they have documented vaccination, however, several more % have a history of covid vaccination documented in the text of their H&P, or in a subsequent note, but it isn’t logged into the “vaccination status” section of the electronic medical record.

My conclusion is that any statements of this being a pandemic of the “unvaccinated” may not be as dramatic (or even true) as described. 10-20% of those admitted with covid confirmed positive are admitted and being treated for something completely unrelated to covid-associated infection or pneumonia... ie. trauma, appendicitis, heart attack (could be argued is covid related), etc. Most patients admitted with covid-related symptoms and/or hypoxemia have significant co-morbid risk factors. And by significant, I mean all caps, bold, and underlined twice.

This variant appears to me to be both highly contagious, and less severe. The decreased severity may be a consequence of a large portion of our community being vaccinated or previously exposed and recovered, or it may be inherent in the new strain... unclear.

This is positive news and suggests we could potentially be nearing the end of this pandemic; where a combo of prior infection and vaccines protect us from the more severe symptoms and COVID becomes something more akin to the seasonal flu.

The situation is highly fluid, of course, and this is just data-supported speculation. We’ll have to stay nimble and adjust fire if the intel changes. But, when compared to the current zerohedge’esque reporting on the subject, this is an interesting — and potentially tradable — narrative vs. reality gap.

In another positive development, it looks like the Chinese policy cycle has bottomed out. Here's the following from Morgan Stanley (emphasis by me).

Now, with GDP growth decelerating to just 3.3%Y in 4Q21 (4.9% on a 2-year CAGR basis), policy-makers have hit pause on deleveraging and began to ease both monetary and fiscal policy a few weeks ago. RRR cuts were coupled with window guidance to banks to allocate credit to SMEs, renewables, mortgages and developer loans. Faster local government bond issuance will translate into stronger infrastructure spending, and property purchase restrictions have been lifted in a number of cities.

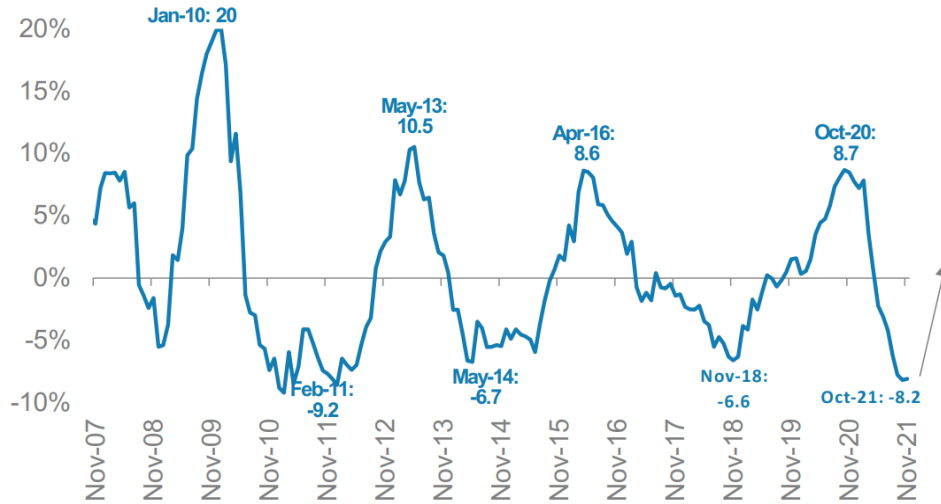
This past week, top policy-makers convened at the Central Economic Working Conference (CEWC), an annual meeting that sets the agenda for the economy in the year ahead (for our China economics team's takeaways, see here). Their statement acknowledged that "China's economic development is facing three pressures: demand contraction, supply shock and weakening expectations", suggesting to us that they will continue to take action to stem the downturn.

- *Policy-makers are prioritizing infrastructure investment in areas like pollution alleviation, carbon emission reduction, new energy sources, new technologies and new industrial clusters.*
- *Regarding the property sector, the statement mentioned efforts to "support the commodity housing market to better satisfy homebuyers' reasonable housing demand". They will "enhance guidance on housing market expectations" and "promote a virtuous cycle" for the first time in the past decade. The January 2022 reset of mortgage loan quotas will help to lift home purchases.*
- *As for decarbonization, a similar reset of the targets in the new year will alleviate near-term headwinds. Policy-makers have now indicated that they will first invest in alternative energy before curtailing fossil fuel-based energy sources.*

This isn't going to be an aggressive easing as in cycles past. The CCP has made it clear they're committed to reigning in further aggressive leveraging in the economy. But, all in, this makes for a more bullish tailwind than what we've had out of China for the last 14-months.

Exhibit 1: Policy easing now under way, credit impulse to rise

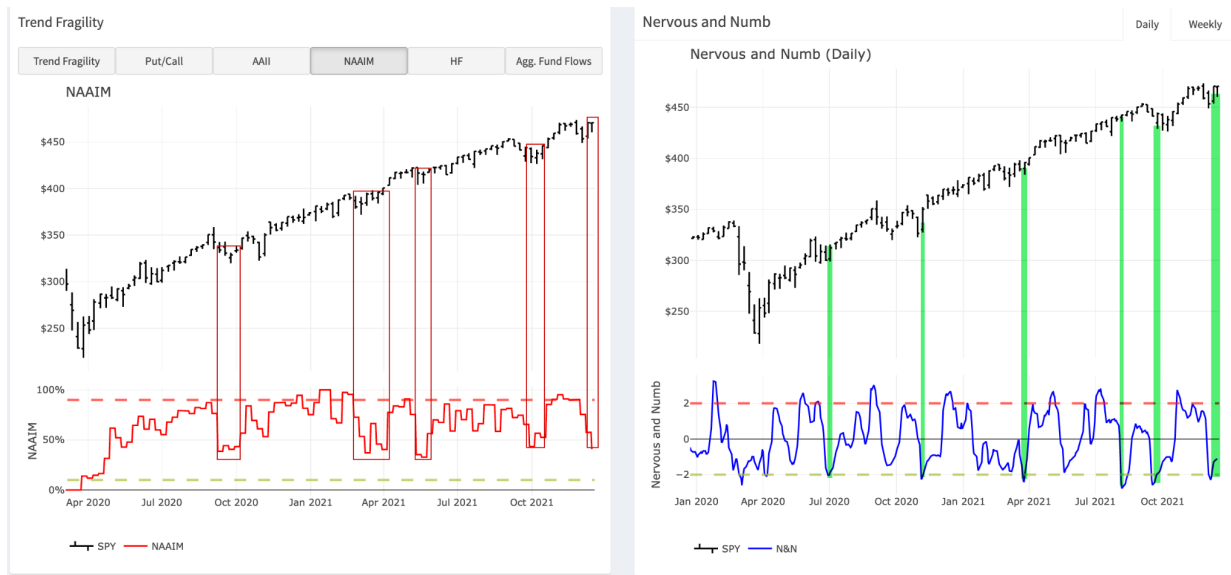
China's Credit Impulse, % of GDP



Source: CEIC, Morgan Stanley Research

This gives us a constructive backdrop given the positive divergence between reality and the negative news coverage surrounding Omicron, combined with a turn in policy out of China.

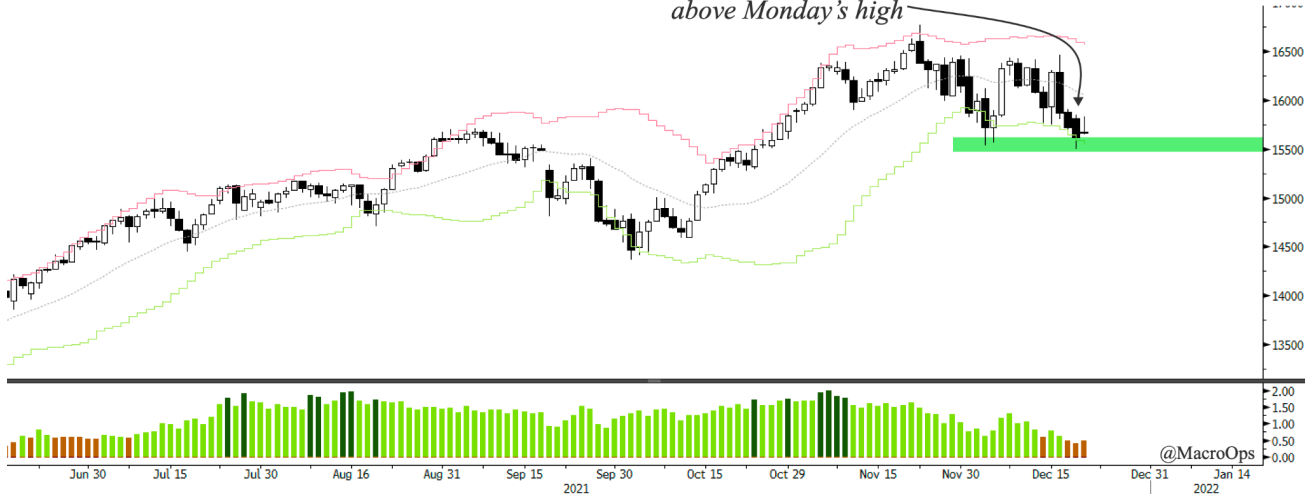
The recent bout of market volatility has driven short-term indicators of positioning and sentiment to bullishly supportive levels. NAAIM rolling average equity exposure fell to just 41% last week, a level that has coincided with a bottom every time since the COVID bear market lows. And our Nervous & Numb indicator triggered a Buy Signal on Monday.



Our base case remains that we're in the final third leg of an extended Buy Climax. A climax that will peak within the next couple of months. But... if the market can hold and reverse from current levels, then we should see upside follow-through to new highs over the next couple of weeks.

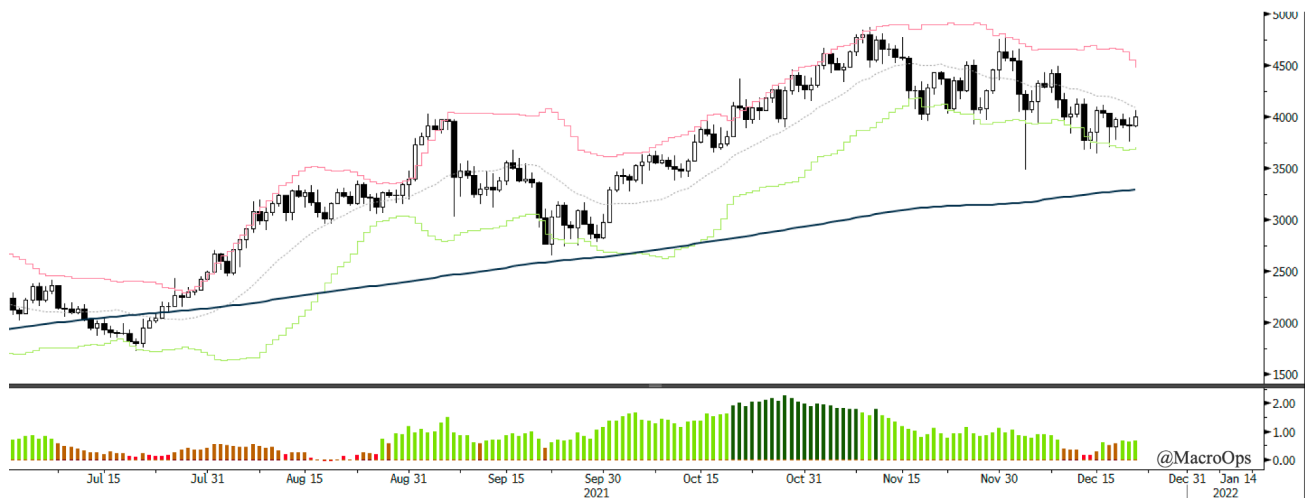
Nasdaq mini (NQ1) - daily

Buy if we see a reversal and close above Monday's high



If BTC and ETH can close strong today, it'll give us a bullish setup bar and we'll look to get long on upside follow-through.

ETHUSD - daily



Your Macro Operator,

Alex