

TRENDMACRO LIVE!

On Good News About Avian Flu

Thursday, May 11, 2006

Donald Luskin

The **stocks** associated with the **Avian influenza investment theme** fell sharply yesterday on reports that **migratory birds** now crossing **Europe** on their way north from their wintering grounds in **Africa** are believed to be largely free of the **highly pathogenic form** of the infection. This throws into question the belief of scientists that the disease is being spread around the globe by **natural migration**, as opposed to **trade** or **smuggling** in **domestic fowl**. If natural migration is indeed not involved, then the probabilities of transmission of the disease to **the Americas** later this year would be significantly reduced.

Our investment thesis on this theme has hinged not on the actual outbreak of a **human pandemic**, but rather on heightening public fear as the disease arrives in the **United States**, which would mostly likely happen via natural migration (see ["Avian Flu: Risk and Opportunity"](#) March 6, 2006). In the three weeks after we first reported that thesis, a crescendo of publicity grew as the disease spread among humans and both wild and domestic fowl and mammals in Europe, **Africa** and the **Middle East** -- and our **Avian Influenza Index** of companies involved in vaccines, treatments and detection surged. We said at that point (see ["Quick Takes"](#) March 29, 2006) that "we're near a short-term climax of publicity (and stock performance)." Indeed, for two days after that our Index made higher highs, and now it is back to almost exactly where it was when we first wrote about the theme.

Bad news for avian flu stocks is, of course, good news for the world -- so we hope yesterday's reports turn out to be both true and lasting. For the moment, at least, Europe is breathing a sigh of relief as its efforts at **containment** of outbreaks earlier this spring appear to have been sufficient, and new infections are not cropping up as migrating birds return. So long as the **media narrative** about avian influenza can continue on this "all clear" note, we would expect the theme stocks to languish. However, we caution against **false complacency**, and take the position that the avian influenza theme could quickly regain its salience the moment the news turns back to the worse. **TM**