



U.S. Municipal Bond Market

Uncertainty – What the Municipal Market Knows and Doesn't Know About COVID-19

What do we know?

The U.S. Centers for Disease Control and Prevention (CDC) already told us last week that they are preparing for a potential pandemic. By definition, an epidemic is less widespread than a pandemic. An epidemic is when there is a sudden increase in the number of confirmed cases of a disease that is above what would normally be expected for a certain population. When diseases spread across countries and/or continents, epidemics grow into pandemics and affect larger numbers of people. We are being told to expect a wider spread, though the CDC is unsure how severe.¹

None of the recent infectious disease outbreaks of the last two decades come close to what we are currently experiencing, actually or potentially speaking. The 2002 SARS virus proved deadly but was quickly contained. The 2009 swine flu made its way to the U.S. by way of Mexico but the outbreak was mild and passed relatively quickly as well. A 2014 outbreak of the Ebola virus was traced back to Congo, but it impacted mostly West Africa.²

The total number of global cases has surpassed 90,000 and more than 3,000 have died. The WHO is reporting COVID-19 has killed about 3.4% of confirmed cases, the majority of which are in China. The seasonal flu's mortality rate is under 1%. The good news is that China is reporting a decline in reported infections. However, the United States has over 100 reported infections and this number is expected to increase.³

Dr. Marc Lipsitch, an infectious disease expert from Harvard, recently said in a CBS News interview, "This is not an existential threat. It is very much like a bad pandemic of influenza, which we experienced arguably twice or three times in the 20th century, but none of those brought civilization to its knees...and this won't either." Lipsitch also predicted 40-70% of the world's adult population could become infected.⁴

On March 3, 2020 the U.S. Federal Reserve took emergency measures by surprising the market with a 50 basis point rate cut because "the coronavirus poses evolving risks to economic activity." For more on this surprise Fed action please see [The Fed Cuts 50 in an Emergency Move](#), by HilltopSecurities' Scott McIntyre and Greg Warner. We do know that the Federal Reserve surprise 50 basis point cut probably did not have the desired impact, at least in the short run. Concern about the direction of the economy is elevated. Demand continues to be strong for non-risk investments like U.S. Treasuries. The 10-year Treasury fell below 1.00% for the first time ever and stocks closed down 3.00%. The 10-year AAA Municipal Market Data (MMD) yield closed Tuesday at a yield of 0.96%, up three basis points from Monday's close of 0.93%.⁵

Tom Kozlik

Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

The Federal Reserve surprise 50 basis point cut probably did not have the desired impact, at least in the short run. Concern about the direction of the economy is elevated. Demand continues to be strong for non-risk investments like U.S. Treasuries.

What do we not know?

We still do not know what to make of those infection numbers. Are they close to being accurate? Is there a point where COVID-19 is going to finally fade into our memories? We do not know the answers to these questions and many others. The concept of “social distancing” could become more mainstream, and we don’t currently have a model for what it looks like or the economic impact. We also do not know how interrupted the economic engine will be here in the U.S. Economic activity could take a hit if schools close and business workers stay home. We just do not have an idea of the extent to what this looks like in two, three, or six months. We also do not know the answers to how much of an impact we are likely to see in economic data reports out of China or here at home. Growth is going to be lower, for sure. Economic activity is going to be lower, for sure. How low growth falls, and for how long it stays low is another big question.

Could We See Stimulus Out of Washington, D.C.?

We do not know what other type of policy might come out of Washington, D.C. Stimulative measures may be under consideration. Just after the rate cut announcement, Senator Elizabeth Warren called for “at least a \$400 billion fiscal stimulus package.”⁶ After the rate cut, Reuters reported U.S. Secretary of the Treasury Steven Mnuchin said he is happy to discuss reinstating the state and local tax deduction with President Trump. We also saw a report that the House Ways and Means Committee Chairman Richard Neal told Secretary Mnuchin that a major infrastructure package should be considered a priority for any Washington, D.C. stimulus measure.⁷

This entire picture is likely to continue to evolve, and we will continue to monitor the situation for what this may mean for public finance and municipal investors.

This entire picture is likely to continue to evolve, and we will continue to monitor the situation for what this may mean for public finance and municipal investors.

¹ [CDC Warns It Expects Coronavirus to Spread in U.S.](#) *The Wall Street Journal*. Feb 25, 2020.

² [We've Had a Lot of Pandemics Lately. Have We Learned Anything From Them?](#) *Slate*. Jan 30, 2020.

³ [Coronavirus Live Updates: U.S. Lawmakers Strike Emergency Aid Deal as L.A. and N.Y. Find More Cases.](#) *The New York Times*. March 4, 2020.

⁴ [Coronavirus may infect up to 70% of world's population, expert warns.](#) *CBS News*. March 2, 2020.

⁵ *Bloomberg*.

⁶ [Protecting our People and our Economy from Coronavirus.](#) *Elizabeth Warren*, March 4, 2020.

⁷ [Mnuchin tells lawmakers he is happy to discuss reinstating state- and local tax deduction with U.S. President Donald Trump.](#) *Yahoo News*. March 3, 2020.

The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP.