

U.S. Municipal Bond Market

Optimistic Scenarios Related to Vaccines and COVID-19 Relief

Summary

- We believe it is only the more optimistic scenarios that are being considered as it relates to the vaccines' impacts in determining the end of the COVID-19 pandemic, and as it relates to another round of federal COVID-19 relief.
- The more realistic vaccine scenarios should also be considered.
- The health crisis is far from over. The financial crisis, which is likely to last far beyond the health crisis, is also nowhere near over.
- Something will need to change in the political landscape for a fifth phase of COVID-19 relief to become a reality.

Vaccines – The Optimistic Scenario is Evolving

There is a place for optimism, especially considering the long, slow journey the country and the world, frankly, have traveled during the worldwide COVID-19 pandemic. As we reflect, it is about this time last year that reports of the coronavirus began coming out of China. In February and March 2020 the first wave of infections hit U.S. shores. Now, only nine months later we have a [timeline of next steps](#) related to not just one, but multiple vaccines that will help solve the health care crisis. This is, of course, wonderful news to be sure.

Dr. Anthony Fauci even shared a morsel of hope [during a conversation with New York Governor Andrew Cuomo](#) this week. Dr. Fauci said, "If we do that well [effectively distribute the vaccines], by the time we get into the core of the summer and get to the end of the summer and into the start of the third quarter of 2021, we should be in good shape. That's what I'm hoping for."

Let's be clear – Dr. Fauci's scenario is still one of the more optimistic, highlighted by the fact that he is "hoping," that could occur. A September 2020 McKinsey report, [An Optimistic Scenario for the U.S. Response to COVID-19](#), indicated that "normalcy" might resume in the first half of 2021 and herd immunity could be reached in the second half of 2021.

Now that the vaccines are here, national and regional governments will shift to undertake the ["largest simultaneous global public health initiative ever undertaken."](#) But as McKinsey also points out, the timeline of when the health crisis actually ends is "uncertain," in [When Will the COVID-19 Pandemic End?](#) (dated Nov. 23, 2020), a follow-up to its September report.

In addition, [the Nov. 23 McKinsey report](#) notes that "normalcy" is further off than expected. It seems like even their optimistic scenario has been pushed back. McKinsey stated, "The positive readouts from the vaccine trials mean that the United States will most likely reach an epidemiological end to the pandemic (herd immunity) in Q3 or Q4 2021. An earlier timeline to reach herd immunity—for example, Q1/Q2 of 2021—is now less likely, as is a later timeline (2022)."

The takeaway is that the health crisis timeline being considered is likely of the more optimistic scenarios. It assumes nothing related to the further spread of the infection

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and that there are no bumps in the manufacturing and distribution of the vaccines.

The reality could be that the process takes longer than the more optimistic scenario.

Optimistic to Think COVID Relief Will Get Done Before End of the Year

This week began with news that lawmakers were going to push back the Dec. 11 deadline for the federal budget approval by a week. This was partially to give lawmakers extra time to iron out details for a fifth phase of COVID-19 relief.

A \$908 billion bi-partisan proposal was unveiled that included \$160 billion of aid for state and local governments. It was and still is a very optimistic assumption to believe that such a proposal had legs. This is because no meaningful ground has been made since talks broke down in July among Washington lawmakers that should lead observers to think that negotiators are any closer to a compromise than they were back in the summer.

Leaders on both sides of the aisle have stated they would like to see a deal finalized – which is likely true, to a degree. However, neither side has taken the necessary steps that would allow those involved to come to a more common ground and lead to a concession.

In fact, we are just now seeing that talks are breaking down yet again, unsurprisingly. Please see the article, Republicans throw cold water on bipartisan COVID proposal, which explains that Washington negotiators remain at an impasse as it relates to another phase of COVID-19 relief. This was published Thursday afternoon, Dec. 10, 2020.

If Relief Happens At All, May Not Be Possible Until Feb. 2021 at the Earliest

If talks do in fact completely break down, which is the more likely outcome than another round of relief, another swing at an agreement will not likely occur until February 2021 at the earliest.

This weeks-long delay is because even though Congress officially begins its session Jan. 3, that starting point is going to be delayed until after the Georgia run-off elections are completed. And, it is most likely that legislation, especially significant legislation like this, would not occur until after President-Elect Joe Biden takes the oath of office on Jan. 20, 2021.

Therefore, the more realistic scenario for another phase of COVID-19 relief could be that the legislation takes longer than observers have considered, if it even happens at all in the short-term.

Health and Financial Crises Likely to Last Longer than the More Optimistic Scenarios

There is room for optimism certainly. Without optimism observers may end up losing hope. But, it is important observers and investors recognize the health crisis is far from over. The financial crisis, which is likely to last far beyond the health crisis, is also nowhere near over. This reinforces the idea that another round of meaningful fiscal relief is needed for the U.S. economy and state and local governments. However, something will need to change in the political landscape for a fifth phase of COVID-19 relief to become a reality.

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