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How the COVID vaccines affect the economy and markets

What should investors prepare for as the COVID vaccine is distributed through 2021? U.S. Bank assesses how the vaccine may influence the market economy.

With COVID-19 dominating the headlines since last year, it's not surprising that much of the public's attention has turned to the distribution of a vaccine to combat the virus.

The pandemic created significant economic challenges in the past year, including a brief but very steep recession. While the economy has since recovered much of that lost ground, it's still considered far from normal. The stunningly rapid creation and approval of Pfizer-BioNTech and Moderna vaccines seemed to positively influence investor sentiment in the closing months of 2020 and is considered an encouraging sign for the long-term health of the economy.

As vaccine distribution continues to evolve through 2021, what should investors prepare for during this time? Investment leaders from U.S. Bank offer their assessment.

The question of vaccine distribution and timing

With the vaccines from Pfizer-BioNTech and Moderna now in large-scale production, the question is how fast the vaccines can be widely delivered. In line with that is the issue of when the economy can return to something closer to what life was like prior to the pandemic.

"Investors hope that by late in the second quarter or during the third quarter of 2021, vaccine distributions will be widespread," says Eric Freedman, chief investment officer at U.S. Bank. The markets will be closely watching factors like how the global supply chain holds up, logistical management and the order in which vaccinations are provided to various segments of the general population. "The markets seem to be assuming that vaccines will begin to make a dent in COVID-19 before the winter months of 2021," says Freedman.

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Have markets jumped the gun?

Stock markets are generally considered a forward-looking indicator of the underlying economic environment. That seemed to be the case as the Dow Jones Industrial Average, Standard and Poor's 500 and NASDAQ Composite indices all surpassed record levels to start 2021. "The market rally occurred in an environment of rising infections in the U.S.," notes Rob Haworth, senior investment strategy director at U.S. Bank. "Investors looked right through those troubles and focused on growth in 2021."

Haworth sees an encouraging sign in recent opinion polls indicating that Americans are increasingly willing to get the vaccine. He believes markets will be closely watching the pace of the vaccine rollout. "If the economy can't reopen significantly by the second half of 2021, the markets may run out of patience." Yet Haworth believes that even this wouldn't amount to a massive stock selloff or another bear market, but more likely a manageable correction.

Markets may be well positioned to maintain some momentum in the first half of the year. "Companies should be able to generate favorable financial performance when measured against the first half of 2020," says Tom Hainlin, national investment strategist for U.S. Bank. He believes the bigger questions revolve around how the economy responds in the second half of the year, assuming that vaccinations roll out at a faster pace. "We remain optimistic about the prospects for the economy later in 2021," he adds.

In the meantime, challenges persist

While vaccines draw major headlines and significant interest, the reality is that the U.S. and much of the world remains mired in a health crisis. There is a general understanding that the vaccine rollout is a long-term proposition that doesn't resolve the immediate challenge of trying to tamp down the impact of COVID-19.

Notable economic issues persist as a result. "The importance of the government providing a fiscal bridge is apparent," says Hainlin. A \$900 billion aid package was signed into law at the end of 2020, extending unemployment benefits and providing up to \$600 in direct payments to qualified individuals, among other provisions. This may temper, but not fully offset, the economic headwinds many people and businesses continue to face.

The [Biden administration](#) is already putting tremendous emphasis on developing an additional stimulus package in the early months of 2021. That may prove critical to keeping the economy on track while the vaccine waiting game continues for most Americans.

What's next for the economy?

The assumption is that at some point, perhaps later in 2021, the global economy will slowly resume a "steady state" scenario, a return to something closer to what was considered normal in the pre-pandemic era. Yet there are questions about whether some of the economic changes that took place in last year may be permanent.

Freedman believes investors are closely watching consumer trends and business practices to see what carries on in a post-pandemic world. “Will we see a dramatic change in behavior? Will certain sectors be disproportionately rewarded or penalized by what’s happening?” Freedman wonders. “We expect some changes within commercial and residential real estate, consumer spending proclivities, and how businesses rethink their marketing strategies. We will continue to monitor how these changes may yield investment opportunities.”

COVID-19 may have helped accelerate business trends that were already underway. Haworth points to examples such as an uptick in retail bankruptcies involving mostly companies that were dealing with significant challenges. Another area he believes bears close watching is the demand for office space. “There’s a possibility that demand could fall in central business districts as many employees begin to work from home more regularly.” This would have a dramatic impact on commercial real estate.

Haworth also notes a boost in demand for single family homes from millennials and a potential permanent decline in business travel given the increased use of technology to connect with business associates. This could have an impact on the airline industry and other parts of the hospitality market.

Making plans for the year ahead

There are industries that may be positioned to permanently benefit from changes that took effect with the onset of the pandemic. “Cloud computing and video streaming are services that are likely to continue to grow their businesses even when some sense of normal returns,” says Hainlin. Online retailing, already a growing trend, may have solidified its position in the past year.

Yet it may take time to fully delineate winners and losers when the “steady state” returns. When that time comes, headline events may take a backseat, and the typical market fundamentals such as corporate earnings are likely to become more predictive of investment performance. Individuals should continue to focus on a long-term, well-diversified investment strategy that is consistent with their tolerance for risk.

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