

## **Q: Are markets dependent on a vaccine being available in 2020?**

**Brian Lockhart:** I think the markets could experience a significant correction if there is not an effective vaccine this Fall. The science on a vaccine is all over the board. Some of the early information on a vaccine development suggests that it will take several vaccine shots to be effective. A first shot would be given, then followed by a second shot 28 days later, with a need for a booster in 12 months. The adoption of people taking the vaccine will be impacted by this process if it becomes necessary. It has appeared to me that the markets have priced in a vaccine before the end of 2020 since the March low.

I think the economy is going to contract more than initially forecasted because of the spread of COVID-19, resulting in some states having to restrict economic activity again. Even if a vaccine is approved before the end of the year, valuations are difficult to justify at current levels. My expectation would be a correction of 10-20% between now and the end of the year if a vaccine is expected in 2020 and likely twice that if it appears no vaccine will be available this year. I am involved in weekly calls and presentations on vaccine development and will say that many are promising even though they are in early stages. The FDA is being incredibly accommodating to expedite development.

**Clint Pekrul, CFA:** To a certain degree, I think market performance will be impacted by the speed with which an effective vaccine is developed. Ever since the COVID-19 outbreak, markets, to no surprise, have traded at elevated levels of volatility (for example, the VIX, which measures the expected volatility of the S&P 500, has traded around 30 on average). But at this point, I think investors in general are beginning to realize that an effective vaccine against COVID-19 by the end of the year is overly optimistic. According to the Council on Foreign Relations, the fastest a vaccine has ever been developed is five years. If we assume this time frame, I think we will adopt a “new normal” before the vaccine arrives. I have no idea what this state will look like, but it might be one without a robust economy. However, as we’ve seen, some industries have thrived under the virus outbreak, so there will likely be investment opportunities. But if there’s no vaccine on the horizon, some segments of the economy will continue to suffer. Ultimately, I think we’ll be forced to adapt further while we wait for the vaccine to arrive. It will be our ability to adapt that will drive the market over the intermediate term.