Letter from the Chairman…

“The history of failure in war can almost be summed up in two words: too late.”

General Douglas MacArthur

Let us be clear. The risk reward equation for the pandemic vs. the economy is glaringly asymmetric. COVID 19 must be brought under control now, regardless of how delayed the reopening of our economy. As I’m writing this letter, the death toll in the United States from the virus has reached 130,000. The Influenza Pandemic of 1918 killed an estimated 195,000 Americans in the month of October alone. Some 675,000 of our country’s citizens died before it ended, and that was when America’s population was less than one-third of what it is today. That pandemic is estimated to have caused fifty million deaths worldwide: three times the deaths caused by the First World War that was raging at the same time. Yes, things could get a lot worse.

My alarm has three main sources:

1. Because of inadequate testing, we have no idea how many “Typhoid Marys” are out there and therefore can’t isolate them.
2. The probable date for a globally distributed, effective vaccine is too distant.
3. States and their political subdivisions are being hammered by rising expenses and declining revenues, both caused by the pandemic.

The courage and patriotism displayed by our health care workers and first responders is worthy of our highest praise, and the quick actions of the Federal Reserve are also laudable. Future historians may well credit them with averting a depression. Complaining by some, that their rights are being violated if they have to wear a mask in public, is simply unacceptable. It’s part of our Social Contract. We don’t smoke in public buildings, pollute our water supply, or drive 100 MPH through our neighborhood streets because it imperils others.

During the Civil War, many in Congress vilified Sherman’s March and Grant’s iron will. But I ask you, how many more thousands of soldiers would have perished if the fateful 1865 meeting at the home of Wilmer McLean had been postponed for two, three or four more years? It is the absence of iron will that imperils us now.

Despite the pandemic, the municipal bond market is more than holding its own. Newly minted bond issues, as compared to where they were back in the middle of March, have dropped in yield about 225 basis points for short bonds, 196 basis points in the ten-year range, and 163 basis points on the long end. Spreads between credit ratings have also narrowed. While the yield difference between ten-year triple A (AAA) bonds and comparable non-rated debt was over 200 basis points back in March, they’ve narrowed to about 135 basis points in today’s markets. The fact that more bonds are maturing, or being called, than the new issue pace is able to replace, is certainly contributing to the decline in bond yields. Added to this is the unprecedented participation of the Federal Reserve as a purchaser of municipal debt for the first time in its history. The decline in yields on taxable municipal bonds is even more spectacular.

General MacArthur’s admonition aside, there is still time to defeat this pandemic if we have universal adherence to the protocols we all now know so well. Other countries have proven this.

Please stay safe.
1. Wash your hands often.

2. This isn't forever. It's just right now.