

## Unprecedented Fed Action Is One Part of the Solution to COVID-19

### Summary

- We are in the midst of a public health crisis — not a financial crisis — that is straining the economy.
- The three-part solution for an economic and market recovery comprises:
  1. Moving from acceleration to deceleration in the spread of COVID-19
  2. Massive monetary policy action
  3. Massive fiscal stimulus
- The unprecedented actions announced by the Federal Reserve to improve liquidity in the credit markets is one part of the solution.

### Market falls 3% on disappointment with Congress' lack of action on fiscal policy

It's hard to believe that just over a month ago, the market reached all-time highs, the economy was on solid ground and the consensus view was the longest bull market in history would continue for its 12th year. By the time markets closed on Monday, the Dow Jones Industrial Average had lost just over 10,000 points since the start of the year. New COVID-19 cases appear to be in their exponential growth phase, which sadly is a precondition for reaching the peak rate of new cases. Congress failed in its second attempt to adopt a massive fiscal spending package and U.S. stocks fell 3 percent on Monday, reflecting growing concerns about the economic strain caused by expanding lockdowns and other efforts to contain the pandemic. The market's volatility also reflected swings from relief to distress over the U.S. government's economic policy responses. While markets were disappointed with Congress' failure to pass a fiscal spending package, the Federal Reserve's announcement of unlimited monetary support, along with special credit and liquidity facilities, marks a critical step forward.

### A three-part solution: Monetary, fiscal and public health policies

We must continue to remind ourselves that we are in the midst of a public health crisis that is causing severe economic stress. We believe this is materially different than a financial crisis that causes severe economic stress. For the economy and markets to recover, we are focused on a three-part solution to the COVID-19 crisis that must include the coordination of monetary, fiscal and public health policies.

## Fed takes extraordinary action to ease liquidity crunch and support the economy

The Fed's announcement today contains the massive monetary policy action the market needs.

It is clear the Fed is willing to pull virtually every available lever. The unprecedented monetary action includes the largest-ever quantitative easing (QE) program, and special facilities designed to ease the liquidity crunch in bond markets and assure lending capacity backing money markets, banks and businesses. The Fed's monetary program includes:

- Purchasing an unlimited amount of Treasury and mortgage-backed securities to support smooth market functioning, in addition to the \$700 billion of QE already pledged.
- Broadening the range of securities purchased to include commercial mortgage-backed securities (CMBS) and other asset-backed securities (ABS).
- For the first time, establishing a facility to purchase investment-grade corporate securities in the secondary market, including exchange-traded funds, to ease bond market liquidity.
- Providing credit support for municipalities by expanding the range of securities the Fed's credit facilities can purchase.
- Reestablishing the Term Asset-Backed Securities Lending Facility (TALF) allowing Fed lending to institutions that buy securities backed by small business and consumer credit loans.

The Fed's comprehensive monetary program should help ease the current liquidity squeeze and provide economic support for business. However, the U.S. Congress must eventually adopt a fiscal spending package to backstop the economy by providing direct support to consumers and businesses — providing the second part of the solution. Although disagreements over the distribution of aid to corporations and individuals prevented adoption on Monday, Congress is actively working to pass a more than \$1 trillion spending package by Friday.

**Monetary and fiscal action can buy time for containment efforts to help stop the virus**

Working together, monetary and fiscal policy can buy time for public health policy to do its part with containment and medical treatment efforts. Although containment efforts are causing economic disruption in the short term, they are a prerequisite for stopping the virus and creating the conditions for economic and market recovery.

We continue to remind investors that reaching a market bottom is a process. While we are seeing modest signs below the surface that the bottoming process has begun, there are unique risks associated with this public health crisis that argue for caution. Until we see clear signs of progress on all three parts of the solution, we expect markets to remain volatile for the foreseeable future.