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Sunday Night Surprise

In attempt to go all in, the Federal Reserve cut rates on Sunday night to the lower bound, 0-0.25% and announced a \$700 billion Quantitative Easing (QE) program. The Fed will boost Treasury holdings by at least \$500B, and mortgage-backed securities holdings by at least \$200B. They also plan to reduce reserve requirement ratios to 0%, effective on March 26. The Fed is coordinating with the Bank of England (BOE), Bank of Japan (BOJ), European Central Bank (ECB), and the Swiss National Bank (SNB) to boost liquidity through US dollar liquidity swap lines.

The FOMC noted the coronavirus outbreak has disrupted economic activity and significantly affected global financial conditions. The Fed believes the effects of the coronavirus will weigh on economic activity in the near-term and poses risks to the outlook. The Fed expects to maintain the new fed funds target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. They will continue to monitor data and respond as necessary.

Fed Chairman Powell said that the interest rate cuts will matter more when economy recovers, and the liquidity operations are to stabilize the system currently. The Fed will be watching whether markets are functioning properly and is prepared to use its tools to ensure the markets continue to function.

These actions are in addition to last Thursday's repo announcements. The Fed offered \$500 billion in a three-month repos and \$500 billion in one-month repos, and said that it would continue on a weekly basis for the rest of the month. The Fed also said that rather than just buying \$60 billion of T-Bills a month as planned, it will extend those purchases across the curve. This adds a massive amount of liquidity to financial markets that will also expand the Fed's balance sheet significantly. The Fed is doing "whatever it takes" to backstop the overnight funding markets in an effort to prevent the healthcare crisis from turning into a financial crisis. In our opinion, the monetary policy actions that have been enacted so far are lacking a Commercial Paper Facility, in which the Fed buys commercial paper from issuers and dealers directly. The commercial paper market is critical for companies' short-term funding needs. Companies rely on the market as a source of short-term cash for payrolls, inventory, accounts payable as well as unanticipated funding needs.

Now it's time for policymakers to get their act together. Monetary policy alone is not enough, and a coordinated fiscal policy is needed to stem the economic deterioration from the Coronavirus response. President Trump declared a National Emergency, which frees up resources and opens the door for aid for states and municipalities. The declaration gives the government access to \$50 billion in emergency funds. It also appears that Congress is close to passing a fiscal stimulus plan as early as this week. In Europe, the German Government will offer unlimited loans to all companies that want them and guarantee every job in Germany. All EU countries are being encouraged to do the same as Germany.

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As we have said before, the markets appear to be pricing in what is known (economic and earnings slowdown) and what is feared (millions of coronavirus deaths and economic recession/depression). Identifying an exact bottom in the markets is nearly impossible, but much like in December 2018, the market seems very oversold. We believe the current situation is temporary and will not have long-lasting effects. As such, we believe that sticking to your long-term strategic financial plan is critical to achieving your goals.

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