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Serious Support on the Horizon

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

The news is coming fast and furious as Congress and the administration scramble to add support. Stocks are up on news that a more significant fiscal stimulus plan is in the works. Three weeks ago, President Trump had request $2.5 billion to fight the coronavirus (COVID-19). Two weeks ago, an $8.3 billion dollar bill was passed. This morning, Treasury Secretary Steve Mnuchin is reportedly seeking to add virus-related stimulus of $850 billion to the package the House passed over the weekend. On the surface, even this now seems inadequate.

The latest proposal is expected to include large scale funding for small business loans as well as cash payments to individuals within the next two weeks. The direct cash payment will apparently replace the proposed payroll tax cut. In a press conference this morning, Mnuchin also described his plan for IRS tax deferrals, whereby payments owed could be deferred for up to 90 days with no interest charge or penalty fee, while tax refunds would be made available as soon as possible.

The fiscal proposal is fluid, and as a result, has not yet been passed by the Senate. However, the seriousness of the virus threat is escalating rapidly in the eyes of nation's leaders. Although these emergency measures seem quite alarming at the moment, the effectiveness of any stimulus package is dependent on a bold and rapid response. We may have missed the rapid part, but are working on the bold. A bill is expected to pass this week and will be immediately signed into law by the President. Whatever legislation emerges from Congress is likely to be the next in a series of steps to keep businesses and individuals stable until the threat eases.

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Also this morning, the Fed announced a relaunch of its Commercial Paper Funding Facility. According to Mnuchin, the program is prepared to purchase as much as $1 trillion in dollar-denominated commercial paper for up to 12 months. Purchases will be limited to A1/P1/F1 issuers, including those with a foreign parent company. The financing cost to issuers who choose to use this backstop is the 3-month overnight index swap (OIS) rate plus 200 basis points. Issuers would also pay 10 basis points on the maximum expected borrowing amount the first time the program is used. It's important to note that the intent of the program is to provide investor assurance that they'll be protected in the event of a market disruption. This is a much needed liquidity backstop.

On a related note, U.S. airlines are requesting $60 billion in direct assistance and loan guarantees, nearly four-times to assistance made available after the 9-11 attacks. Without support, the Centre for Aviation believes "most airlines in the world" could be bankrupt within three months. U.S. airlines have also asked the nation's airports to reduce or suspend their charges and fees, but the airports themselves are experiencing similar problems. According to Politico, the Airports Council International-North America has already estimated its losses at $8.7 billion.

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On a related note, Boeing has reportedly requested aid for itself and its suppliers just a week after drawing down the full amount of a $13.8 billion term loan and announcing an immediate hiring freeze. Earlier this week, Standard & Poor's cut Boeing's credit rating by two notches to BBB on lowered expected cash flow. Although many have been critical of Boeing's aggressive stock buyback program in recent years, the company remains the nation's biggest exporter and had employed as many as 150,000 direct workers and an additional 1.5 million jobs within its supply chain. Boeing is absolutely essential to this economy and will be supported.

Please see disclosure on page 2.

It seems almost petty to talk about the economic data. February numbers have grown stale very quickly. This morning, retail sales fell by -0.5% in February, well below the +0.2% median forecast. Sales ex-autos dropped -0.4%, missing the +0.1% forecast. Declines were broad-based, led by lower sales at gas stations and auto dealerships. Predictably, the largest increase was in the e-commerce sector. The retail sales report is usually among the most anticipated of the monthly releases as consumer spending has historically contributed about 70% of U.S. GDP. This February report probably represents the last of the normal sales reports. March will show distress. The fact that consumer spending was weaker-than-expected in February indicates overall first quarter growth will be lower than expected. Recession is looming.

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Market Indications as of 2:45 P.M. Central Time

DOW	UP 1,022 to 21,210 (HIGH: 29,551)
NASDAQ	UP 425 to 7,330 (HIGH: 9,817)
S&P 500	UP 92 to 2,478 (HIGH: 3,386)
1-Yr T-bill	current yield 0.26%; opening yield 0.24%
2-Yr T-note	current yield 0.47%; opening yield 0.36%
5-Yr T-note	current yield 0.69%; opening yield 0.49%
10-Yr T-note	current yield 1.01%; opening yield 0.72%
30-Yr T-bond	current yield 1.61%; opening yield 1.28%