Staying Afloat Until the Storm Passes

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It was another down day for stocks as the financial markets reflect uncertainty surrounding the inability of Congress to come to a bipartisan rescue plan. This is an enormous task, and as much as we'd all like to see political leaders plow forward and get something accomplished as quickly as possible, *it's critical they get it right*. A Republican aid package estimated at $1.7 trillion failed to pass the Senate on Sunday, but Senate Minority Leader Chuck Schumer said this morning that lawmakers were very close to a deal on a two trillion-dollar package targeted at displaced workers, shuttered businesses and municipalities. As massive as it is, it isn't likely to be the last aid package.

On the monetary side, the Fed is doing everything it can, and in fact significantly more than most believed they were capable of. The latest measures include expanding QE asset purchases to an *unlimited* amount of Treasuries and mortgage-backed securities. In addition, the Fed will now purchase *commercial* mortgage-backed securities, which are primarily mortgages on apartment buildings. The Fed also announced it would launch two new programs to supply large company credit: the Primary Market Corporate Credit Facility (PMCCF) to support the issuance of company loans and new corporate bonds, and the Secondary Market Corporate Credit Facility (SMCCF), to provide a liquidity source for outstanding corporate bonds.

The economic data is on the verge of getting really ugly, but we're simply seeing what we know to be happening in number form. Weekly initial claims (new unemployment filings), scheduled for release Thursday morning, are expected to explode from 281k last week to somewhere above two million. This is shocking…but fully expected. When the March employment numbers are released on April 3, nonfarm payrolls could easily fall by 500,000 or more, while the unemployment rate soars. Over the next month, labor market data should get much worse; but again, this is residue from what we already know to have happened. It's critical to understand that the shuttering of millions of businesses translates into immediate job loss for millions, but when businesses reopen, a snapback of similar magnitude is possible…assuming efforts by Congress and the Fed can keep businesses and individuals afloat until then.

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St. Louis Fed President James Bullard told Bloomberg News on Sunday that the unemployment rate could hit 30% in the second quarter with a 50% plunge in GDP. But, Bullard believes an aggressive government response should result in a quick bounce back. He envisions the third quarter as "transitional," with growth in the next two quarters being quite robust, possibly "boom quarters" as Americans begin spending again. In a similar vein, Morgan Stanley Economist Ellen Zentner shocked investors late last week with her forecast of a -30% plunge in second quarter GDP, but Morgan Stanley is also projecting a +29% recovery in the third quarter. It's hard not to be discouraged, but important to keep in mind how unique this economic downturn is. It won't last forever, but we'll witness some really bad numbers in the near-term.

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The most important issue isn't the economic data, or the Fed action, or even the Congressional aid packages, but containing the virus spread. Widespread COVID-19 testing in the U.S. means the number of confirmed cases will rise exponentially. Like the economic data, this is no surprise. It's unnerving, but expected. When we've seen a turn in the rate of infection, the outlook should improve. That turn may already be happening in Italy. The number of new cases reportedly dropped on Sunday, approximately two weeks after the country went into lockdown. The Monday numbers haven't been posted, but in the event new cases continue to drop in Italy, it would indicate the lockdown

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has been effective. In the United States, we're several weeks behind Italy and already beginning to doubt whether the economic price paid is too steep. President Trump tweeted last night that the U.S. will reevaluate its coronavirus strategy at month end to determine how to proceed, stressing that, "We cannot let the cure be worse than the problem itself." This is the debate. Saving American lives means we squash economic growth…for a while.

The President, Congress, and the Federal Reserve are working to minimize the damage and shorten the duration, but everything hinges on containing the virus as soon as possible.

But, this too shall pass.

Market Indications as of 3:40 P.M. Central Time

DOW	DOWN 582 to 18,592 (HIGH: 29,551)
NASDAQ	DOWN 19 to 6,861 (HIGH: 9,817)
S&P 500	DOWN 68 to 2,237 (HIGH: 3,386)
1-Yr T-bill	current yield 0.11%; opening yield 0.08%
2-Yr T-note	current yield 0.31%; opening yield 0.31%
5-Yr T-note	current yield 0.40%; opening yield 0.46%
10-Yr T-note	current yield 0.76%; opening yield 0.85%
30-Yr T-bond	current yield 1.31%; opening yield 1.42%