

Shut Down the Pump and Prime it at the Same Time

March 17, 2020



Stock markets recouped some of the ugly losses from Monday's strong selloff. The Dow Jones Industrial Average rose 6% or 1,048 points which felt somewhat modest after the index lost over 2,900 points the day before. The S&P 500 and Nasdaq Composite also rallied Tuesday climbing 6.0% and 6.3% respectively.

The Trump administration announced new public health guidelines including limiting gatherings to ten people and asking citizens to not go into restaurants or bars or food courts and avoid discretionary travel over the next two weeks. In short, the public health officials are shutting down activity that will slow the spread of the coronavirus. Maintaining public health is the priority. The challenge is that the strategy to slow the spread of the virus also slows economic activity.

Concurrent with the new public health guidelines, the Federal Reserve and the U.S. Treasury announced large plans that are designed to maintain liquidity and smoothly operating capital markets. Additionally, plans were announced to put in place stimulus that will ultimately prime the pump that we are throttling back for public health purposes. When citizens are asked to throttle back their economic activity, the economy loses demand. Fiscal and monetary policy stimulus can be crafted to fill the demand void created by the need for public health measures. In short, the U.S. Treasury, Congress and Federal Reserve are trying to prime the pump so that the economy will re-engage as the public health threat passes.

The U.S. Treasury, the Congress and the Federal Reserve are taking and talking about bold measures. Specifically, the Federal Reserve, working under the Treasury 13(3) authority activated emergency commercial paper financing mechanisms to help U.S. companies maintain access to financing as well as ensure smooth money market operations. It also announced that it would now hold repo operations for a total of \$1.0 Trillion -- double the prior amount -- also intended to maintain strong liquidity in capital markets.

Additionally, Treasury Secretary Mnuchin as well as congressional democrats announced priority negotiations to pass fiscal stimulus that could approach \$1.0 trillion, and would be designed to help individuals and small business and impacted workers. Finally, in what may be the most symbolic measure of the federal government's sense of urgency, the U.S. Treasury announce that taxpayers will get a three-month reprieve to pay the income taxes they owe for 2019. Taxpayers are to file their return by April 15th, but those who owe up to \$1.0 million in taxes have an additional 90 days to send a check. Bold moves to fight the COVID-19 war. We applaud bold moves to keep orderly markets and to re-engage the economy.

