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Fed Goes All In, But Not Congress… Yet

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Just before the stock market opened today, the Federal Reserve promised that it would buy unlimited amounts of U.S. Treasury and mortgage bonds. In a strong message of doing, "***whatever it takes***" the Fed flexed its muscle in an attempt to calm markets. Stock market futures made an about face and turned positive, but the selling continued through the day as the news that the fiscal stimulus being crafted in the Senate stalled.

The Dow Jones Industrial Average shed another 582 points to close at 18,591, a drop of 3.0%. The S&P 500 dropped a similar magnitude of 2.9%, but interestingly the tech heavy NASDAQ Composite fell a scant 0.3% and was positive for part of the day. Also, of note, the Russell 2000 small cap index also outperformed the Dow and the S&P 500 falling 1.1%, and oil jumped over 4% on the day closing over $24 for West Texas Intermediate crude.

As evidence of the seriousness of their early morning announcement, The Federal Reserve said it would buy corporate debt for the first time since the 2008 financial crisis. This announcement came after it was apparent that for the second day, the Senate could not come to terms on an almost $2.0 trillion fiscal stimulus package.

Everyone is, of course, trying to ascertain what damage the coronavirus and its attendant work stoppage is inflicting on the economy. So far, we've had precious little evidence of the impact on the economy *but intuition tells you that it is significant*.

What we do know is that the economy had a healthy head of steam before being slammed by the coronavirus. The Federal Reserve Bank of Atlanta reports what they call GDPNow. They define GDPNow as, "*a running estimate of real GDP growth based on available data for the current measured quarter*". Notably, their mathematical measurement of the 1st quarter GDP was running at 3.1%. **This measure doesn't not include the economic impact of the coronavirus and so acutal 1st quarter GDP will fall well short of 3.1%.** However, it does indicate that the economy was strong going into the crisis. https://www.frbatlanta.org/cqer/research/gdpnow

Clearly the public health strategy to keep citizens safe and healthy by social distancing, keeping people from gathering and traveling has left a hole in the economy. How significant that hole is we don't know, but *again intuition tells us that it is large*. Monetary policy alone won't fill that hole -- it requires fiscal policy.

We have an unusual situation that precedes this oncoming recession. Typically, we slide into recession and jobs are gradually lost along the way. Only the clearing out of the excesses in the ensuing recession allows for capital to form again and jobs to be generated. This time we aren't sliding – we are falling sharply. While some jobs are lost, most are not, and the Congress's quick action and well-placed dollars could help maintain those jobs before they are gone. As we've mentioned before, it will be much less costly to keep the jobs than to lose them and pay unemployment awaiting the time when capital would form again to regenerate them.

Of final note, today was the first day of complete electronic trading as there were no traders on the floor of the NYSE. So, for the first time in the history of the NYSE, there wasn't anybody on the floor waving their arms wildly or shouting. Remarkably, the trading was orderly – it was just a little strange.