

Fed to the Rescue *April 9, 2020*



Stocks continued to move higher on the shortened trading week due to the Good Friday holiday. The Dow Jones Industrial Average added 286 points, or 1.2% and closed at 23,719. The S&P 500 followed suit rising 40 points, or 1.5% closing at 2,789 while the Nasdaq Composite rose a more modest 63 points, or 0.8% closing at 8154. The stock market surged throughout the week, with the Dow jumping over 12% for one of its biggest weekly gains on record.



Federal Reserve Chairman Jerome Powell

The day started with another horrific weekly jobless claims report. The number of Americans filing for unemployment benefits came in at 6.6 million in the week ending April 4th only a slight drop from the 6.9 million that claimed unemployment benefits the week before. The continuing jobless claims hit 7.5 million in the week ending March 28th – remarkable given where the labor market was a mere 45 days ago.



Enter the Federal Reserve... In a “forceful, proactive and aggressive” statement, the Federal Reserve announced that they were unveiling programs to lend directly to states, local municipalities and small and mid-sized businesses that have seen revenue plummet amid efforts to combat the coronavirus. The Fed said that altogether, there are nine lending programs that would provide up to \$2.3 trillion in loans and inferred that they would expand these if necessary.

Of note the Fed is expanding lending programs to small and medium sized business (up to 10,000 employees) referred to as the Main Street Lending Program. These loans are separate and apart from the earlier announce “forgivable” small business payroll protection program through the SBA for business with less than 500 employees. The program unveiled Thursday will finance loans that banks make through the government’s emergency small-business lending program. Banks will be able to exclude those loans from required capital ratios, freeing them up to make more of those loans which are separately guaranteed by the Small Business Administration, according to the Wall Street Journal.

The Fed’s announcement went beyond business lending to include state and local municipalities. The Federal Reserve will provide financing for up to two years for state and local governments dealing with increased demand for services at a time when their revenues are dropping. This lending backstop is in addition to the \$200 billion passed by Congress to help states and municipalities.

In the oil patch, the much-anticipated conference call with OPEC and non-OPEC oil producing nations took place with Russia and Saudi Arabia agreeing in principle to lead out in a significant oil production cut. Although an agreement was not finalized the oil producing nations are looking to cut production by a collective 10 million barrels of oil per day (about 10% of normalized worldwide daily demand) for the next two months. Thereafter, they would continue output restrictions of 6 million barrels of oil per day for the next two years.

