

Federal Reserve Committed to Keeping Rates Near Zero
May 20, 2020



The stock market snapped back strongly Wednesday retracing Tuesday’s loss as blue-chip retailers announce strong revenue and South Korea reported positive findings in the war against Covid-19. The S&P 500 jumped 48 points today, or 1.6% to close at 2971 and the Dow Jones Industrial Average climbed 370 points, or 1.5% to close at 24,576. The Nasdaq Composite surged 190 points, or 2.1%, closing at 9375 and finally the Russell 2000 rose 39 points or 3.0% to close at 1347. Looking at these same indexes on a year to date basis, the S&P 500 is down -8.0%, the Dow Jones Industrial Average is lower by -13.9%, the Nasdaq Composite is actually higher by 4.4% and the Russell 2000 is down -19.3%

Scientists from the Korean Centers for Disease Control and Prevention studied 285 individuals who tested positive for Covid-19 and recovered and determined that they had a level of protection from reinfection and transmission. As reported by Bloomberg, “...so called re-positive patients weren’t found to have spread any lingering infection, and virus samples collected from them couldn’t be grown in culture, indicating the patients were shedding non-infectious or dead virus particles”. South Korean health officials indicated that the emerging evidence suggests those who have recovered from Covid-19 present no risk of spreading the coronavirus when physical distancing measures are relaxed. In a world trying to safely re-open their economies, evidence that recovered Covid-19 patients are not infectious is welcome news, indeed.

To date all 50 states have now eased economic restrictions – certainly some more than others. The reopening of economic activity holds the promise that the jobs reports will start to show more people going back to work than losing their jobs. The weekly unemployment claims report will be issued Thursday morning. The most important number in that report will be the continuing claims. When continuing claims begin to fall the market will take it as a sign that more people are going back to work than are losing their jobs.

Wednesday the Federal Reserve’s FOMC minutes were released and as expected they painted a gloomy economic picture. Fed minutes indicated that interest rates will be kept near zero until an economic recovery is firmly in place. Fed officials also noted that a second wave of the coronavirus outbreak with another round of restrictions would drag the economy into a deeper and more protracted recession.

