

## The Fed Lifts the Stock Market's Mood June 15, 2020

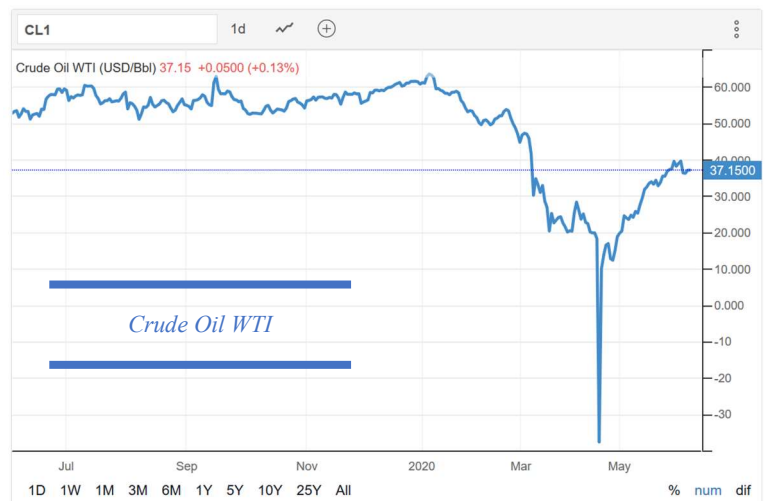


The stock market staged an impressive comeback as all major stock indexes started the day deep in the red but rallied sharply to finish well in the green. By the close of trading, the S&P 500 rose 25 points, or 0.83% to close at 3067 and the Dow Jones Industrial Average jumped 158 points, or 0.62% to close at 25,763. The Nasdaq Composite increased 137 points, or 1.43%, closing at 9726 and the Russell 2000 surged 32 points, or 2.3% to close at 1420. While market finished comfortably in the green, the final numbers do not tell the full story.

The S&P 500 rallied from being down 2.5% to begin the day -- a swing of 104 points. The Dow Jones Industrial Average rallied from a decline of 3.0% to begin the day -- a total change of 920 points to the good. The initial market drop was fueled by investor worry about increased coronavirus cases in June, a time when heat and humidity should be slowing the virus.

The virus concern notwithstanding, investors changed moods and quickly focused on the Federal Reserve's announcement that it will expand its corporate credit facility by purchasing individual corporate bonds that have remaining maturities of five years or less. The Federal Reserve facility, which started buying corporate bond exchange-traded funds in mid-May, is meant to improve liquidity in the corporate bond market that has been roughed up due to the coronavirus pandemic. Last week the Federal Reserve left the target range for its federal funds rate unchanged at 0-0.25 percent on June 10th, 2020 as expected. Chairman Powell reiterated at that time, that they are committed to using a full range of tools to support the US economy in this challenging time. Expanding the corporate bonds purchasing facility is one of the tools he was referring to.

On another front, oil surged on Monday, with WTI crude rising 2.4% to settle at \$37.12 a barrel. The price of oil gives a peak into the global economy. A rising spot price creates optimism that major producers are complying with coordinated supply cuts and a demand-spurring recovery from the coronavirus outbreak would also support oil prices. An OPEC-led monitoring panel will meet Thursday to discuss ongoing record output cuts and see whether countries have delivered their share of the reductions. However, once again, a persistent fear that easing lockdown restrictions could bring a second wave of infections capped oil price gains.



Stock market investors are waging an arm wrestle over what long term impact opening the economy now is going to bring. Have we gone too fast and are we threatening an ill-timed wave of new cases that will bring more public health suffering and a prolonged hesitancy of consumers to participate in the economic process? Or, are we going too slow and creating long term damage to the economy causing prolonged economic suffering and, in the process, unnecessarily spike other public health and emotional suffering? You would hope that society could wrestle that out with thoughtful science and logic rather than political rancor...it's a hope. Whatever the case, you can rest assured that the stock market will register its vote loudly.