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The Fed doubles-down as we wait on Congress

The morning of Monday, March 23 the Federal Reserve announced wide-ranging policies to further inject liquidity into markets and extend credit to ailing sectors. These programs are an alphabet soup of Financial Crisis era programs such as Term Asset-Backed Securities Loan Facility (TALF) and new programs such as the Secondary Market Corporate Credit Facility (SMCCF). These programs act as a pressure release valve for lending markets that have largely seized up in the face of substantial fund redemptions from worried investors.

We find the Fed's swift action to support the market and the economy encouraging. In contrast to 2008, when the Fed had to create an entirely new playbook from scratch, the 2020 Fed has a much better handle on effects of illiquidity and the tools and framework to tackle it. Purchases of not only Treasuries but also corporate bonds should keep capital markets open for businesses to acquire medium-term funding. Providing liquidity to money market mutual funds and commercial paper facilities helps businesses roll over short-term debt. The open-ended nature of the Fed's commitment also provides confidence for investors that the Fed will remain a buyer of last resort should conditions deteriorate further.

Fed action alone cannot create economic growth with its suite of programs. For that we will need massive fiscal stimulus, the first leg of which Congress should be able to pass shortly. The Fed can, however, deploy its toolkit to ensure the sharp economic contraction does not turn into a liquidity crisis and spiral out of control. We view these programs as defensive stop-gaps to protect the economy as we wait for fiscal stimulus to take hold. Functioning markets are necessary to ensure businesses can borrow money and weather the coming quarter when the US economy grinds to a virtual standstill.

The Fed is likely not done. They also announced the establishment of the Main Street Business Lending Program to provide lending to small and medium sized businesses. We will await further detail on this program and others over the coming days and weeks. As investors, we are thus far heartened by the bold and decisive action from the Fed as they continue to roll out further programs. Now we await Congress.



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