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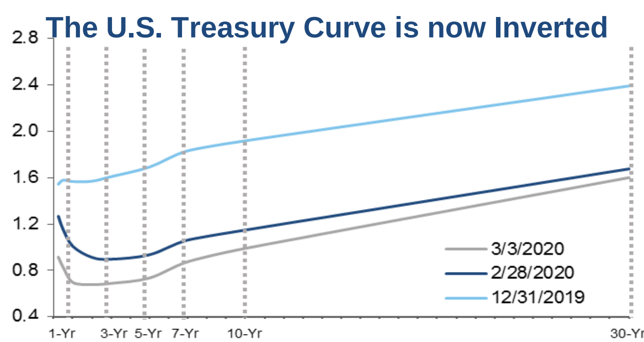
WEALTH MANAGEMENT

Off-Cycle Fed Cut amid Coronavirus Concerns

March 2020

It's been a volatile ride for markets so far this year, driven by coronavirus fears and potential market implications. Early signs of risk-off behavior first appeared in Chinese equities around late January, then quickly spread to other markets. In response to increasing economic risks, the Federal Reserve cut interest rates ahead of the regularly scheduled March meeting and indicated a willingness to provide further accommodation as appropriate. The impact from the coronavirus hasn't fully emerged in key data releases yet, but world leaders and investors alike will certainly be watching closely. That said, it's important to recognize that final implications may not be fully understood or reflected in economic reports for some time until containment of the outbreak is achieved.

- On Tuesday morning, the Federal Reserve (Fed) cut their policy benchmark rate by 50 basis points leaving the target range at 1.00-1.25 percent. The off-cycle cut surprised some investors while others anticipated some Fed reaction following the massive selloff in equities last week. The S&P 500 fell 11.5 percent for the week ending February 28, the biggest weekly drop since 2008.
- The Treasury yield curve is once again inverted on the short end with the one-month Treasury, a proxy for the federal funds rate, yielding around 40 basis points more than the three-year Treasury. At the beginning of the year, this spread was a positive 15 basis points, reflecting an upward sloping yield curve.
- At his brief press conference following the rate cut, Fed Chair Jerome Powell highlighted relatively strong U.S. growth prospects heading into the year, but noted heightened risks to this outlook with the coronavirus outbreak, thus justifying the rate cut. Powell underscored the fluidity of the situation and the need for a multi-faceted approach with responses from health professionals and world leaders. Just before the U.S. rate cut announcement, Powell and other U.S. officials met with their G7 counterparts and issued a general statement that all parties are prepared and willing to act as necessary to support the market.
- The Fed's action may encourage other central banks to move forward with policy changes of their own, which could temporarily provide some comfort to market participants and support a short-term rally in risk markets. However, from a long-term perspective, it remains to be seen how the coronavirus will impact the global economic picture.



We will continue to monitor the situation and in the meantime advise clients to stay patient and stick to their strategic asset allocation.