

Market Update



Economic News

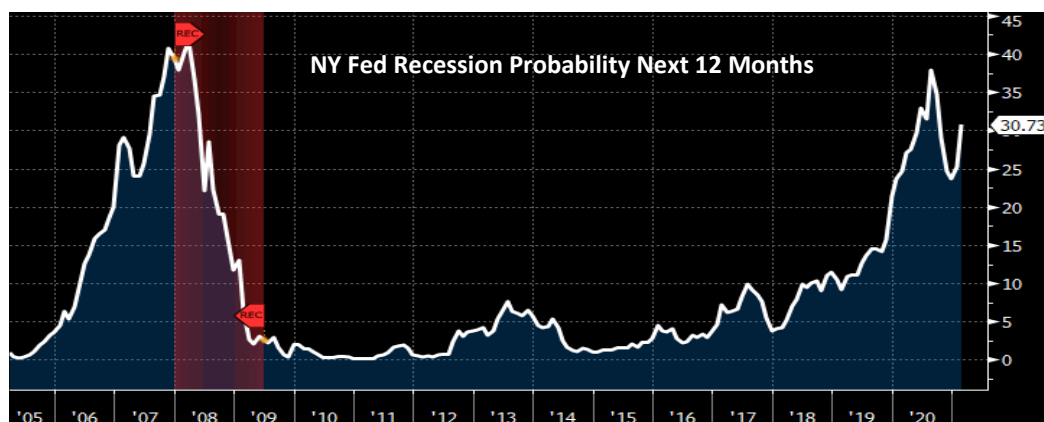
March 13, 2020

It's risk-on Friday (the 13th) after several countries stepped in overnight with both fiscal and monetary plans to deal with the ongoing crisis. The biggest of the plans is from the EU with officials ready to suspend fiscal rules to increase flexibility in dealing with the crisis, and the normally fiscally conservative Germans are declaring they will spend billions to support companies through the crisis.

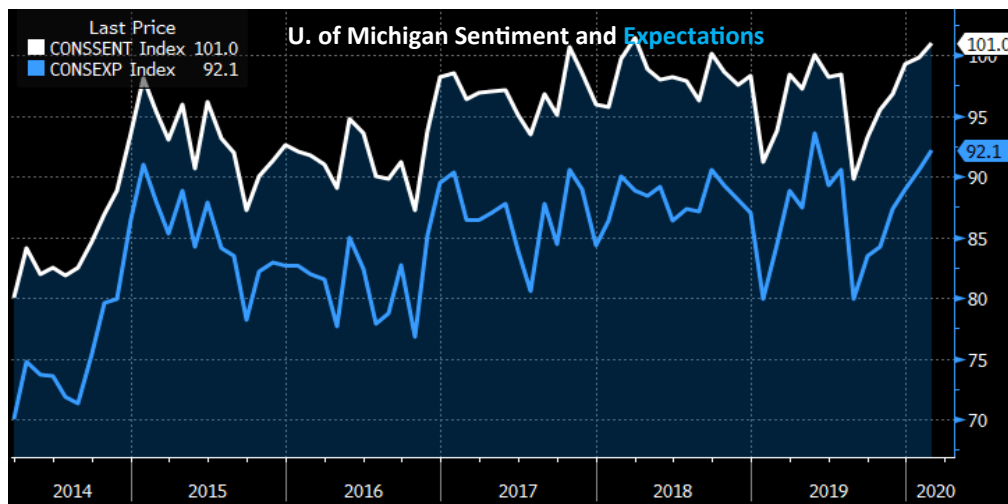
Those actions came on the heels of the Fed's announcement that they would institute measures to increase market liquidity by offering \$1 trillion in 90-day repurchase operations and \$500 billion in 30-day operations this week. Then, 30-day and 90-day maturities will be offered weekly at \$500 billion per maturity for the remainder of the month. The other part of the Fed's announcement was to spread the \$60 billion in ongoing monthly Treasury bill purchases across the maturity spectrum equivalent to the outstanding issues of nominal Treasuries, TIPS and floating rate Treasury notes. The purchases don't involve mortgage-backed securities but that may change when the FOMC meets next week and then a full-blown QE program may be part of the meeting's policy decisions. The fact of the matter is the market still awaits fiscal action and while hopes are high this morning nothing has passed Congress. Ultimately, we think the Fed cuts to zero (0.0%-0.25%) with the 10-year trading just above that.



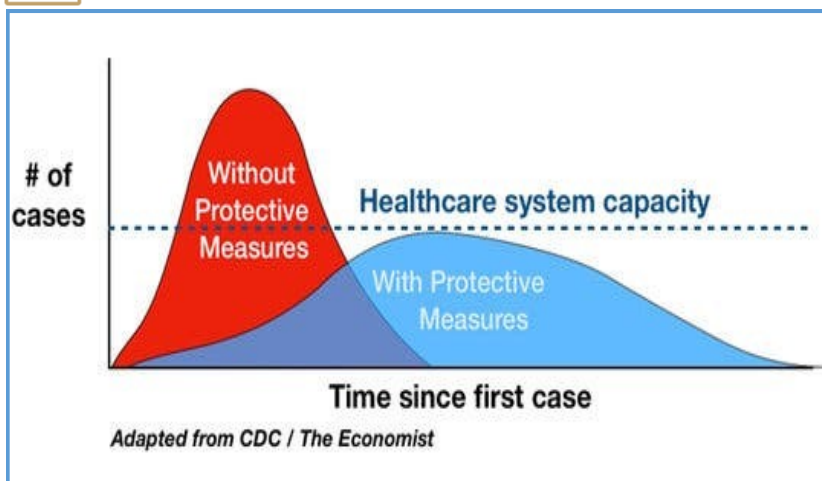
- ◆ As the number of coronavirus cases continue to climb, and social distancing measures increase the prospects of a near-term recession are rising. The economy has been riding the shoulders of consumer confidence and spending but it doesn't take much imagination to see both of those taking hits as school closures, to social and sporting event cancellations has brought the reality of the virus to every doorstep in America. The graph below tracks the recession probability over the next twelve months as calculated by the New York Fed. The graph tracks to the end of February so it stands to reason a March update most likely has it near the levels reached at the onset of the Great Recession. We think the momentum heading into 2020 was strong enough to prevent a negative GDP for the first quarter, but a dreadful March is likely sets the stage for a weak second quarter and one that could easily be negative. The good news is that given the virus's trajectory in other countries and the warmer weather on the horizon expecting a rebound in the third quarter seems a reasonable bet at this time.



- ◆ As we mentioned earlier, the economy has been riding on the shoulders of the consumer as confidence and spending have proven resilient over the various headwinds thrown up in the past few years. The coronavirus presents a whole new level of headwind, however, and one that is likely to seriously dent consumer confidence and with self-quarantines and social distancing behavior is likely to dent consumer spending. The graph below tracks the University of Michigan Consumer Sentiment and Expectations, and as shown both were tracking very high through February. That should change with the March preliminary number due later this morning.



The Reason Behind Quarantine Measures



As the number of cancelled social and sporting events increases the reason behind these measures is fairly basic. As the virus resides in the respiratory system it is easily spread airborne when an infected person is in close contact with others. Also, because an infected person can be asymptomatic for weeks the risk of inadvertent infection is high. Thus, by limiting social interaction, especially large crowds in close quarters, the spread of the disease can be moderated, keeping the number of hospital admissions to levels the system can handle rather than overrunning capacity like the situation in Italy. It remains to be seen, however, if the moves in recent days to quarantine will prove sufficient.

Market Rates

Treasury Curve	Today	Chg Last wk.	LIBOR Rates	Today	Chg Last wk.	FF/Prime	Rate	Swap Rates	Rate
3 Month	0.26%	-0.20%	1 Mo LIBOR	0.80%	-0.06%	FF Target Rate	1.00%-1.25%	3 Year	0.597%
6 Month	0.36%	-0.02%	3 Mo LIBOR	0.77%	-0.13%	Prime Rate	4.75%	5 Year	0.739%
2 Year	0.50%	-0.01%	6 Mo LIBOR	0.74%	-0.14%	IOER	1.10%	10 Year	0.875%
10 Year	0.90%	+0.14%	12 Mo LIBOR	0.75%	-0.10%	SOFR	1.20%		

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