WHAT NOW?

A Macro Perspective

Macro Market Outlook COVID19
OLLI Investment Forum
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Federal Reserve

- The Fed's action to backstop the system is massive in scope

- Necessary to prevent a collapse of financial market infrastructure

- Did not solve the <u>economic</u> problem; it bought time
- Reducing the Fed Funds rate to ≈ 0% combined with QE encourages investors to reach for yield.

- The price is a big dose of moral hazard and possible loss of some Fed independence

- It will be difficult for the Fed extricate itself and get back to "normal"

The CARES Act: Likely Consequences

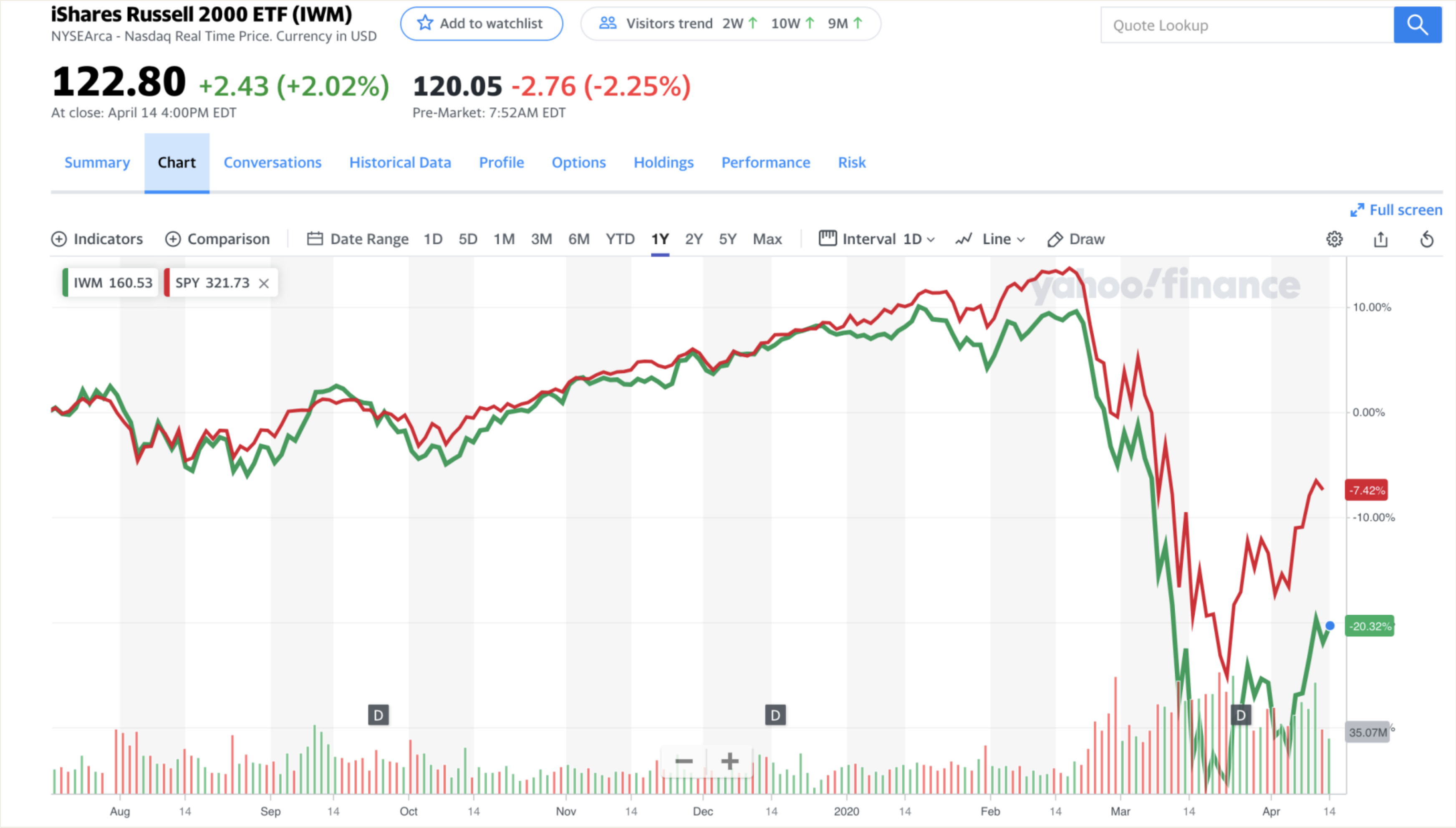
- Act Provides $2.2 Trillion in Grants & Loans to business and the public
- Designed to cushion the impact of an exogenous shock; action was necessary & proper
- But: It is NOT “stimulus” & some provisions of the bill will likely prolong the duration of the recession.
- Financing an additional ≈ 10% of GDP puts upward pressure on interest rates; yield curve may steepen.
- Some “Temporary” measures may (are likely?) to become permanent

Recovery & the Real Economy

- A robust recovery will depend on
  - Letting “temporary” emergency measures sunset before they become permanent
  - Fixing public finances
- We have experienced a massive government failure to respond adequately to the Coronavirus
  - Returning to normal will require substantial reform of domestic & international agencies (FDA, CDC, WHO).
- The free flow of people and capital is necessary for robust growth and will require new protocols for international cooperation in trade and the provision of public goods

About the Balance Sheet…
Large & Well Capitalized Firms are Better Positioned to Address Opportunities

Data Source: Yahoo Finance



A Predictable Reaction

"This is the big triumphing over the little guy and if you don't mind making money in the market off that, that's what's going on," Cramer said Tuesday on "Squawk on the Street." "The companies that dominate in the Nasdaq are just, they're killing companies."

Jim Cramer Speaks.

"There's a seething anger sweeping this country and it's directed point-blank at Wall Street," Cramer said after the market staged another rally in Tuesday's session. "This relentless rally seems unfair, it seems senseless and it seems heartless" amid a deadly coronavirus emergency.

Social and Political Risks

- Prolonged “Social Distancing” will strain existing institutions and exacerbate political polarization
- Fed and Government support for failing firms (to save jobs) will likely prolong the lives of inefficient firms and consume resources that would otherwise be used more efficiently
- Emphasis on saving firms rather than innovation will likely delay recovery efforts
- Policy makers will be increasingly vulnerable to ”shoot the messenger” syndrome
- Increasing pressure for centralization & more regulation—arguably a large part of the problem to begin with

Financial Markets—Looking Forward

- Financial markets thus far appear to be anticipating a reasonably smooth recovery path. Perhaps overly optimistic? Is uncertainty underestimated?

- Future performance will likely depend on:
  - Pandemic duration
  - Medical innovations
  - Fears of
    - Multiple waves of contagion
    - Future pandemics & Counter Measures
  - Withdrawal of Emergency Measures
  - National & international regulatory, fiscal and bureaucratic reform
  - Diversification of global supply chains
  - Modernizing the global trade regime