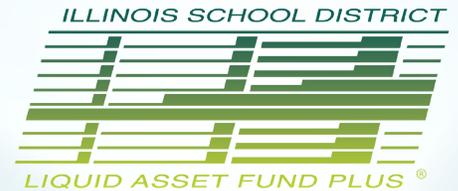


# Financial Markets UPDATE



## Emergency Government Actions

In a massive emergency move on Sunday, the Federal Reserve took multiple actions in an effort to cushion the economy from the impacts of sweeping event cancellations and business closures related to the coronavirus outbreak. The Federal Open Markets Committee cut the Fed Funds rate by a full percentage point to near zero and will boost its bond holdings by \$700 billion. The Fed also announced several other actions, including letting banks borrow from the discount window for as long as 90 days and reducing reserve requirement ratios to zero percent. In a series of statements, the Fed said it will keep interest rates near zero “until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.” The statements continued, “The Federal Reserve is prepared to use its full range of tools to support the flow of credit to households and businesses.”

The Fed’s action comes less than two weeks after it cut rates by a half percentage point in an emergency move that failed to reassure investors. It also follows the Fed’s \$1.5 trillion injection to money markets on Thursday to ease strains in the Treasury debt market.

At PMA, we believe these actions together will support capital markets, helping to maintain sufficient market liquidity. That said, we expect volatility to remain exceptionally high as investors continue to evaluate the economic impacts of the coronavirus and the extent to which government support will help businesses and consumers. We also believe unconventional programs such as those utilized by the Federal Reserve during the Financial Crisis are likely to be considered to support the broader markets. As risk managers, we are monitoring these developments closely and prudently managing client portfolios to seek investments that are safe, secure and liquid.

Sunday’s actions by the Fed were accompanied by developments in Congress. Over the weekend, the House of Representatives passed legislation that would make testing for the novel coronavirus free and provide paid sick leave to certain workers affected by the outbreak, and Washington leaders promised more aid was coming. According to the Wall Street Journal, the bill is “likely” to clear the Senate this week before President Trump signs it into law. Congress had already approved roughly \$8 billion in funding to develop virus treatments and help for states, and on Friday, President Trump issued an emergency declaration that he stated would free up tens of billions of dollars in emergency funding.

Stock markets are opening significantly lower and bond yields have fallen further despite all of these actions. The market is pricing in the likelihood that we have moved into a recessionary phase as the immediate economic impact will be significant, at least on a short-term basis. Weak market performance today, despite all of these actions, also reflects that markets are looking for additional fiscal stimulus. Some economists are advocating for tax rebates or direct subsidies to households, similar to a 2008 bill to boost the economy. These economists believe Congress will have to provide a much bigger package to prevent the world’s largest economy from falling into a deep recession. Fiscal stimulus can reach out directly to affected industries and workers to provide support where it is needed most. As we saw in 2008 and 2009, we expect similar monetary policy and fiscal support to what was implemented during the Financial Crisis.

As always, please feel free to contact your PMA relationship team with any questions or needs you may have. Rest assured that PMA is working diligently to protect your assets. Most importantly, we hope all of our valued clients and friends are taking proper safety precautions during these unprecedented times and that you, your staff and your family remain healthy.

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