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Economic & Market Update

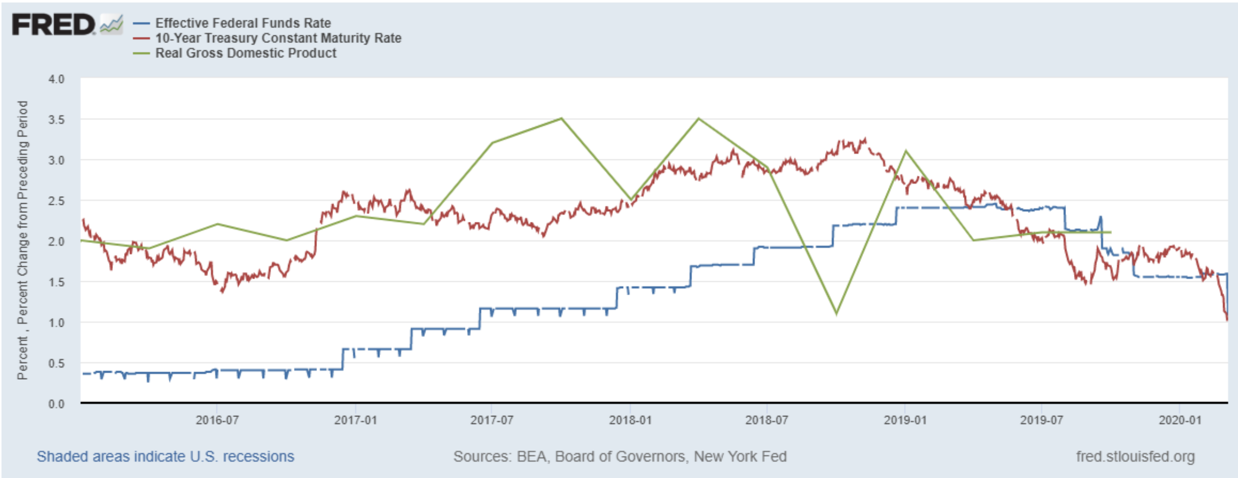
March 2020

Historic Moment!!!

For the first time ever, the yield on the 10-year US Treasury Bond dropped below 1%. On Tuesday March 3rd, 2020, after the stock market corrected 10% and then again 5%, the Federal Reserve cut overnight interest rates from a range of 1.50%-1.75% down to 1.0%-1.25% (50 basis points). The 10-year US Treasury Bond led yields lower eventually forcing the Fed to lower the overnight Fed Funds Rate.

There is a great deal of weakness in the financial system evidenced by the need for the Federal Reserve to support the banking system. Nightly funding for the big banks hasn't required the Federal Reserve's help since 2008. Though the Fed has been supporting the big banks since Sept., the outbreak of the coronavirus has significantly increased the risks to the Banks and economy. City and regional quarantines along with school closings will bring global growth to a screeching halt. Having discussed for years that growth in the global economy has been slow by historical standards, it was only a matter of time before some "event" triggered a serious correction. This time it happened to be a natural disaster along with an already weak banking system that got the ball rolling.

It's highly likely that this is the beginning of something much more serious than the GFC 10 years ago. Some of the big banks, specifically JPM, believe that interest rates could drop to 0% by the end of 2020. If and when that happens, we will definitely be in a recession if not worse. In the attached chart we have highlighted the 10-year US Treasury Bond, the Effective Federal Funds Rate, and Real GDP. The 10-year US Treasury Bond tends to lead the way, the Federal Reserve and economy/GDP follows overtime. The chart shows that we are probably growing closer to 1%, likely heading towards sub 1% GDP in the next few quarters through the election and into 2021!



From here it is projected the FED will have to cut interest rates again to stay with falling yields on the 10-year US Treasury Bond. Also, it is reasonable to expect some fiscal policy spending from the government in form of aid to help fight the coronavirus. The markets will likely bounce around depending on how the virus is contained. Regardless, expect interest rates to continue to head toward 0%!