

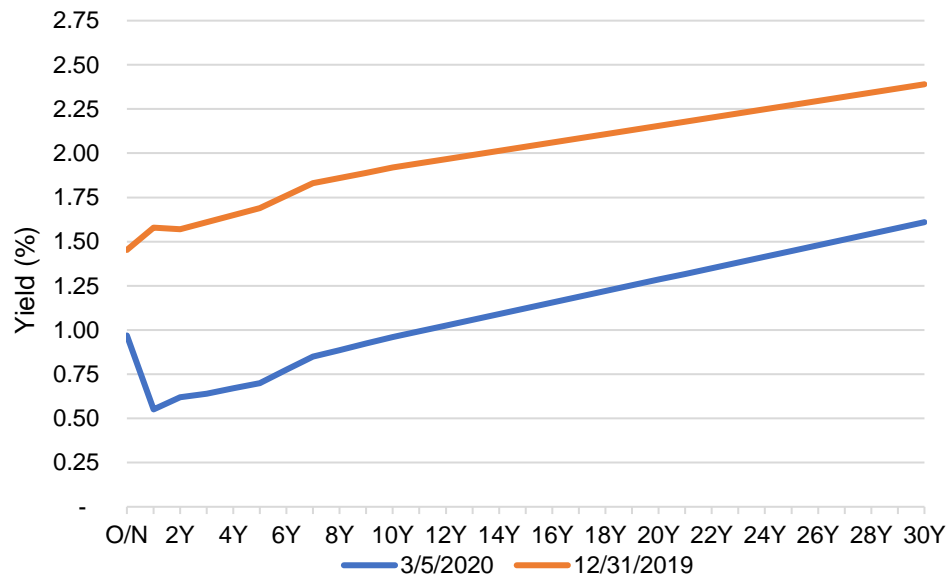
## Off-Cycle Fed Cut

### *What you need to know*

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%. While the markets had priced in a rate cut for March, the off-cycle cut surprised some investors. The last time the Fed made an emergency rate decision was October 8, 2008. Another rate cut is expected to be delivered when the Fed meets on March 18<sup>th</sup>. Currently the Fed Funds Futures market is predicting 3 more cuts for 2020 which would bring Fed Funds down to 0.25% – 0.50% and effectively out of traditional monetary policy tools.
- The Treasury yield curve continues to be inverted between overnight rates and 10 years. Front-end rates fell following the emergency cut and the spread between the 2yr and 10yr has steepened to 35 basis points as of Thursday morning. This spread was negative as recently as late August last year.
- 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.

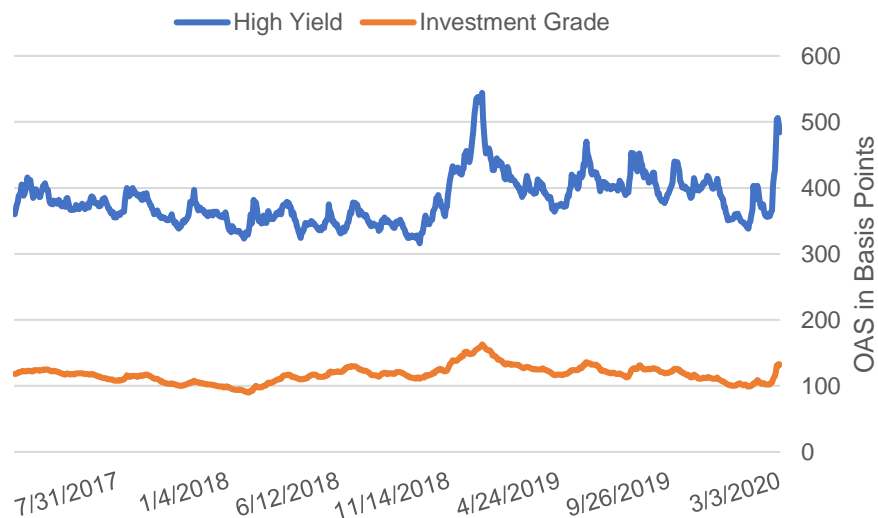
### The U.S. Treasury Curve



Source: Bloomberg

- The Fed’s action may encourage other central banks to move forward with policy changes of their own. However, from a long-term perspective, it remains to be seen how the coronavirus will impact the global economic picture.
- Credit spreads in the U.S. have been following the lead of risk assets and selling off. New issue markets reopened on Tuesday, with Sherwin-Williams and McDonald’s able to tap new investors, after having been frozen since Feb. 21<sup>st</sup>.

### U.S. Corporate Credit Spreads



Source: BofAML ICE Indices

We will continue to monitor the situation and in the meantime advise not react to the volatility and remain disciplined within current asset allocation ranges.

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