BILL'S COMMENTS ON THE ECONOMY AND FINANCIAL MARKETS

MAY 1, 2020

- **The pandemic, the economy, Fed actions**
  - **Latest on COVID**
    - For the US as a whole, the pandemic is still not under control.
    - Confirmed cases and COVID deaths are still rising rapidly in the US, even though the rate of increase has slowed.
      - 1,069,424 million confirmed cases as of April 30; up 23% from one week ago (869,170).
      - 62,996 identified COVID deaths as of April 30; up 27% from one week ago (49,724).
      - Both cases and deaths are underestimated.
      - Data from Johns Hopkins University Coronavirus Resource Center (https://coronavirus.jhu.edu/).
    - US cases and deaths adjusted for population size are rising faster than in peer countries (Italy, UK, Spain, France, Germany).
    - Partial re-opening of the economy may be premature.
      - Social distancing must be maintained.
      - Large or confined gatherings still not advisable.
      - Test-trace-quarantine protocols and capacity are insufficient in many places.
    - Major risks of premature re-opening:
      - Some areas may need to shut down again.
      - Blow to confidence.
      - Some individuals or vulnerable groups may withdraw from economic activities.
    - The only viable endgame is a safe, effective, widely available vaccine.
      - This may be possible in 2021, but we cannot know in advance.
  - **The economy**
    - There just is no good news to point to in the economy at this point.
    - Unemployment claims still surging; cumulative total over 30 million.
    - April employment report will be released May 8.
      - Unemployment rate likely to be in the 10% to 20% range; depends on how employment/unemployment and participation in the labor force are measured.
      - Nonfarm payroll employment could decline 10 million or more.
    - First-quarter GDP declined at about a -5% annualized rate.
    - Second-quarter decline could be at a -20% or -30% annualized rate.
    - New York Fed's Weekly Economic Index suggests real GDP right now is about 12% lower than a year ago.
  - **The Federal Reserve's actions**
    - Fed-funds target rate in range of 0% to ¼%; IOER at 10 basis points.
    - Fed purchased $1.6 trillion in first six weeks of Large-Scale Asset Purchases.

- Financial markets expect short rates at zero for a year or more.
- Will the Fed go negative? Fed says no, but some indications in financial markets suggest investors think it is possible.
- Financial-market policies: **Emergency Fed Funding, Credit, Liquidity and Loan Facilities**

1) Term and Overnight Repurchase Agreements
2) Commercial Paper Funding Facility
3) Primary Dealer Credit Facility
4) Money Market Mutual Fund Liquidity Facility
5) Primary Market Corporate Credit Facility
6) Secondary Market Corporate Credit Facility
7) Term Asset-Backed Securities Loan Facility
8) Paycheck Protection Program Liquidity Facility
9) Municipal Liquidity Facility
10) Main Street Lending Program
11) Central Bank Liquidity Swaps
12) Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility

- **Financial and commodity markets**
  - In contrast to the economy, financial markets have been functioning pretty well.
    - Large-scale interventions by the Federal Reserve and the Treasury beginning in March and continuing into the indefinite future are the most obvious reason for this.
  - Stock market down yesterday and today, but remarkably resilient; far above low point of Mar. 23 and barely lower than a year ago.
  - VIX (stock-market volatility indicator) is close to 40 today, double a "normal" level; but it's half the worst level in mid-March.
  - Credit spreads are higher than before March but seem to have stabilized.
  - Very low level of long-term interest rates suggests investors expect low average economic growth and low inflation for some time.
  - Ag prices are mixed.
  - Oil prices are so low (WTI about $20) that most domestic shale production capacity probably is not viable.

- **Summary comments**
  - The economy is still contracting, perhaps at a decreasing rate.
  - Re-opening of the economy is occurring and we really don't know how this is going to play out—high level of risk and uncertainty.
  - Chairman Powell and many economists still hope the second quarter will be the low point, with growth returning in the second half of 2020.
  - But much uncertainty surrounds the timing and strength of any rebound

- **My expectation: Economic recovery could begin in the second half of 2020, but there is still a high risk of economic and financial volatility and setbacks this spring and summer.**