The Fed Announces $2.3 Trillion Aid

Will Act Forcefully, Pro-actively, and Aggressively

Reaction from our team:

This is a much bigger leap than the previous announcements in terms of support for the economy, jobs, and corporations (good), but also goes beyond the central banker's maxim of "lend freely, at a penalty rate, against good collateral" as the lender of last resort (bad, potentially). The arbitrary support for fallen angels and the purchase of High Yield ETFs seems to particularly smack of moral hazard, as does the potential ability for companies who chose to run with aggressive capital structures (for the benefit of their private equity owners) to use the main street lending program.

Bottom line:

The Fed is not going to let the credit markets get stuck in a negative feedback loop and derail a recovery. They are and will continue, to do everything in their power to support the road to recovery.

Summary from the release:

Fed to provide $2.3 trillion to continue aiding small and mid-sized businesses as well as state and local governments, see the announcement here.

- Expanding Primary and Secondary Market Corporate Credit Facilities and Term Asset-Backed Securities Loan Facility: Increase the flow of credit to households and business
    - These three programs will now support up to $850 billion in credit backed by $85 billion in credit protection provided by the U.S. Treasury
    - To include Fallen Angels, High Yield ETFs, AAA tranches of CLOs & CMBS.
- Payment Protection Program: Supplying liquidity to financial institutions through term financing backed by PPP loans to small businesses.
- Municipal Liquidity Facility: $500 billion in lending to states and municipalities
    - The U.S. Treasury will provide $35 billion of credit protection to the Federal Reserve for the Municipal Liquidity Facility using funds appropriated by the CARES Act.
- Main Street Lending Program: $600 billion in loans.

- The Department of the Treasury, using funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) will provide $75 billion in equity to the facility, link here.

In yet another unprecedented move this morning, the Federal Reserve (Fed) announced "$2.3 trillion in loans to support the economy. This funding will assist households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic."

Powell followed the announcement with a webcast clearly stating that the Fed will do everything in their power to support those that are most vulnerable.

> Businesses have shuttered, workers are staying home, and we have suspended many basic social interactions. People have been asked to put their lives and livelihoods on hold, at significant economic and personal cost…...the burdens are falling most heavily on those least able to carry them. It is worth remembering that the measures we are taking to contain the virus represent an essential investment in our individual and collective health. As a society, we should do everything we can to provide relief to those who are suffering for the public good.

Powell is stressing that these are "lending powers not spending power." The Fed will remove these emergency tools when the economy is stable and recovering. Powell was also clear in noting that he is not worried about inflation at this time and the Fed will communicate to the public when they believe it is the time to start removing accommodation. This will again be a slow and stable process as to not upset any recovery.

Unprecedented times call or unprecedented measure. **We expect the Fed to continue doing whatever is necessary to support the economy and the recovery.**

Let's talk – Smith Capital Investors

Our mailing address is:

Smith Capital Investors

1430 Blake Street

Denver, CO 80202

303-597-5555

833-577-6484

info@smithcapitalinvestors.com

www.smithcapitalinvestors.com