

Monetary and Fiscal Policy in the Age of Coronavirus

LIVE BIGSM

Agenda

- Latest economic impact of the pandemic
- Fiscal response
- Monetary response
- “Printing” money and inflation
- What comes next?



The Stockdale Paradox

Unwavering faith that you will get through this in the end.

Discipline to confront the brutal facts.

Grounded and Hopeful



Ongoing Impact

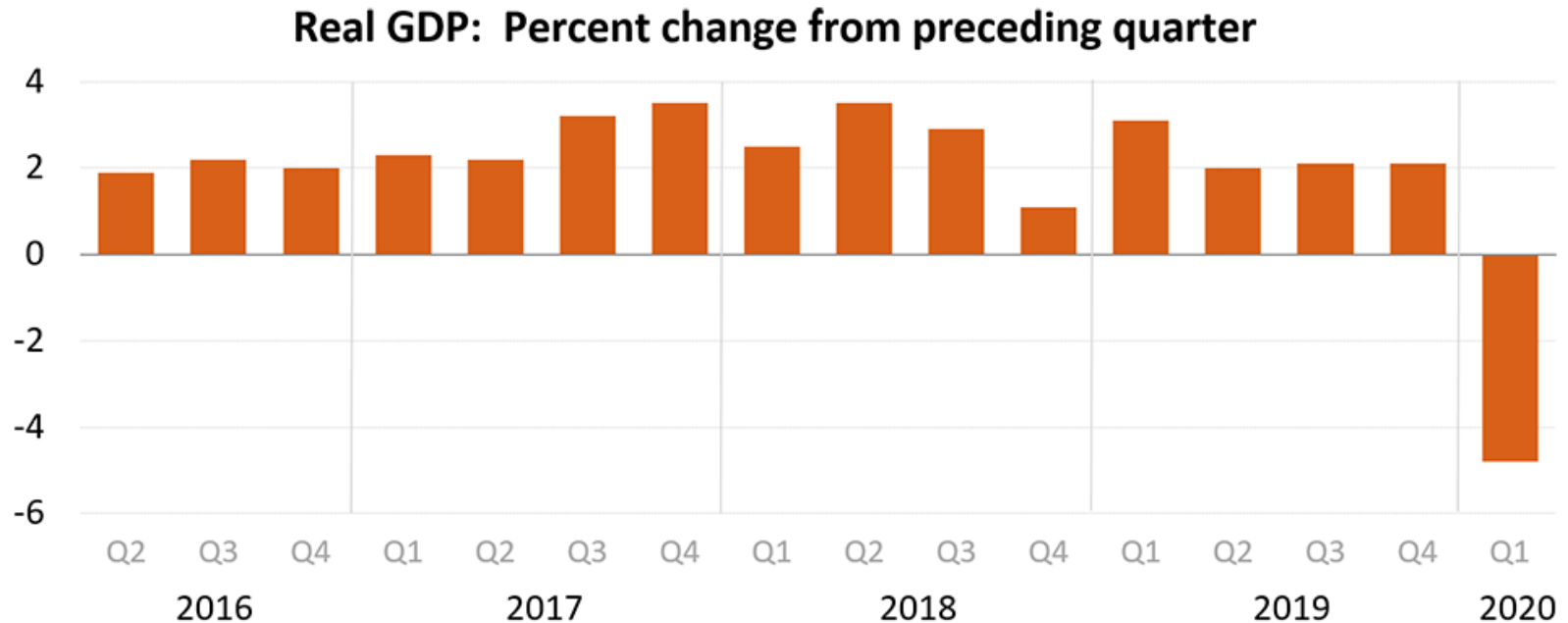
■ Weekly unemployment claims

- March 14: 282,000
- March 21: 3,300,000
- March 28: 6,800,000
- April 4: 6,600,000
- April 11: 5,200,000
- April 18: 4,400,000
- **Total** **26,000,000**

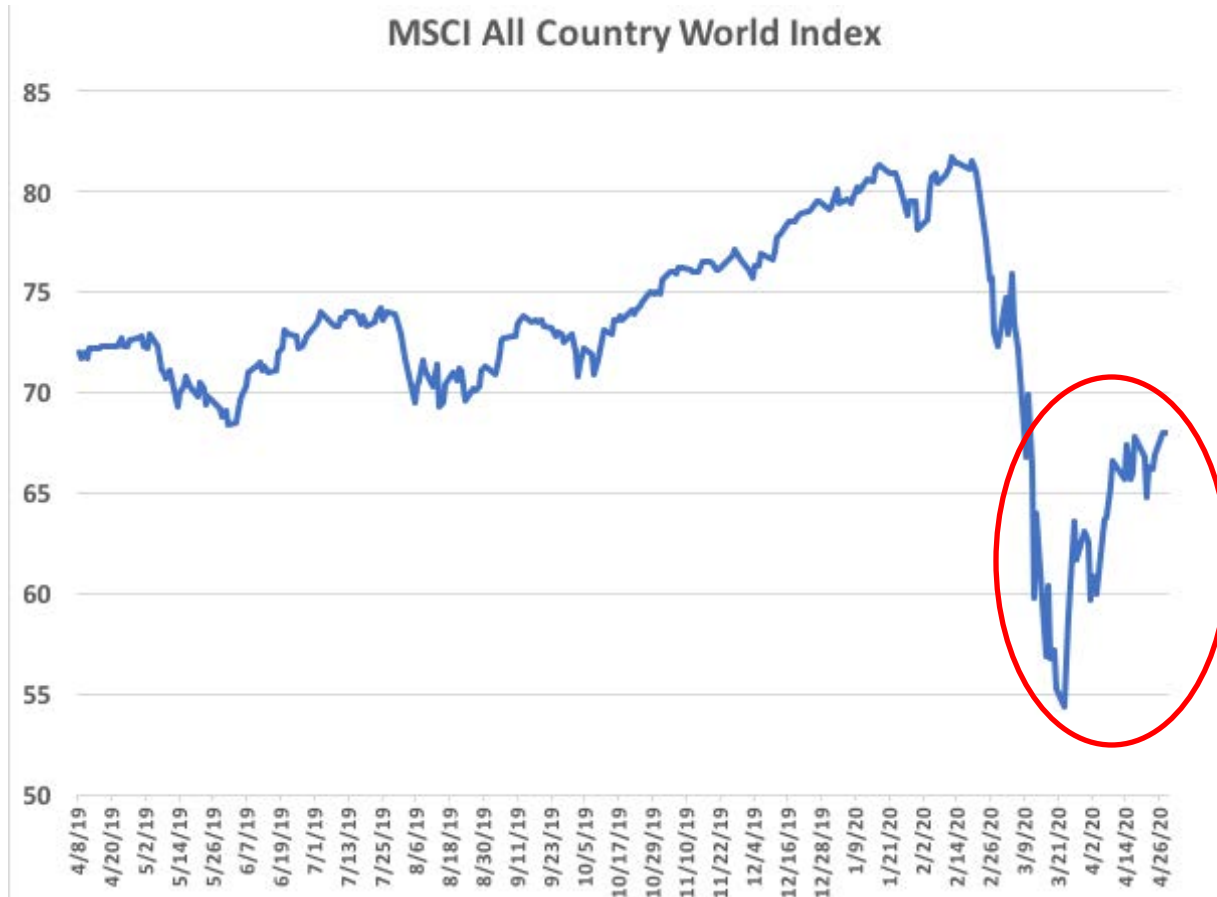


Ongoing Impact

- The economy shrank 4.8% in first quarter.
- Largest drop since 2008 and the Great Recession.



Market Impact



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Fiscal response from Congress

It's not fiscal stimulus
It's fiscal support



Fiscal response from Congress

- March 4: Coronavirus Preparedness and Response Supplemental Appropriations Act - **\$8.3 billion**
- March 18: Families First Coronavirus Response Act - **\$192 billion**
- March 27: The CARES Act - **\$2 trillion**
- April 24: The Paycheck Protection Program and Healthcare Enhancement Act - **\$483 billion**
- **Round Five???**



\$2 Trillion CARES Act

- Individuals: \$560 billion
 - *Cash payments: \$300 billion*
 - *Expanded unemployment: \$260 billion*
- Small Business: \$377 billion
 - *Emergency Grants: \$10 billion*
 - *Paycheck Protection Program: \$350 billion*
 - *SBA debt relief (6 months): \$17 billion*
- Big Business: \$500 billion
- Public Health: \$153 billion
- State & Local governments: \$340 billion



CARES 3.5

The Paycheck Protection Program and Healthcare Enhancement Act

- Replenish the PPP: \$321 billion
- Emergency lending to small business: \$60 billion
- Administrative expenses: \$2 billion
- Hospitals: \$75 billion
- Expanded testing: \$25 billion
- Future responses have been proposed:
 - Enhance “automatic stabilizers”
 - Continue funding PPP, lend for other expenses



Other programs

- **Pandemic Unemployment Assistance program (EDD)**
- Helps unemployed Californians who are business owners, self-employed, independent contractors, have limited work history, and others not usually eligible for regular state UI benefits who are out of business or services are significantly reduced as a direct result of the pandemic.
- 39 weeks of benefits
- 13 week federal extension of benefits



Federal Reserve Actions

“None of us has the luxury of choosing our challenges; fate and history provide them for us. Our job is to meet the tests we are presented.”

Jay Powell



Federal Reserve Actions

- 0% Fed Funds Rate.
- Massive Quantitative Easing (bond buying).
- New lending programs for small and mid-sized businesses (“Main St. Lending Pgm”)
- Financing for state and local governments.
- Financing “Fallen Angels” and CLOs



Federal Reserve Actions

- The federal government is NOT like a household (state & local gov's ARE).
- Any government that controls its own currency can borrow infinitely (unlike Greece, which does not control the Euro).
- The primary constraint is inflation.



Printing Money



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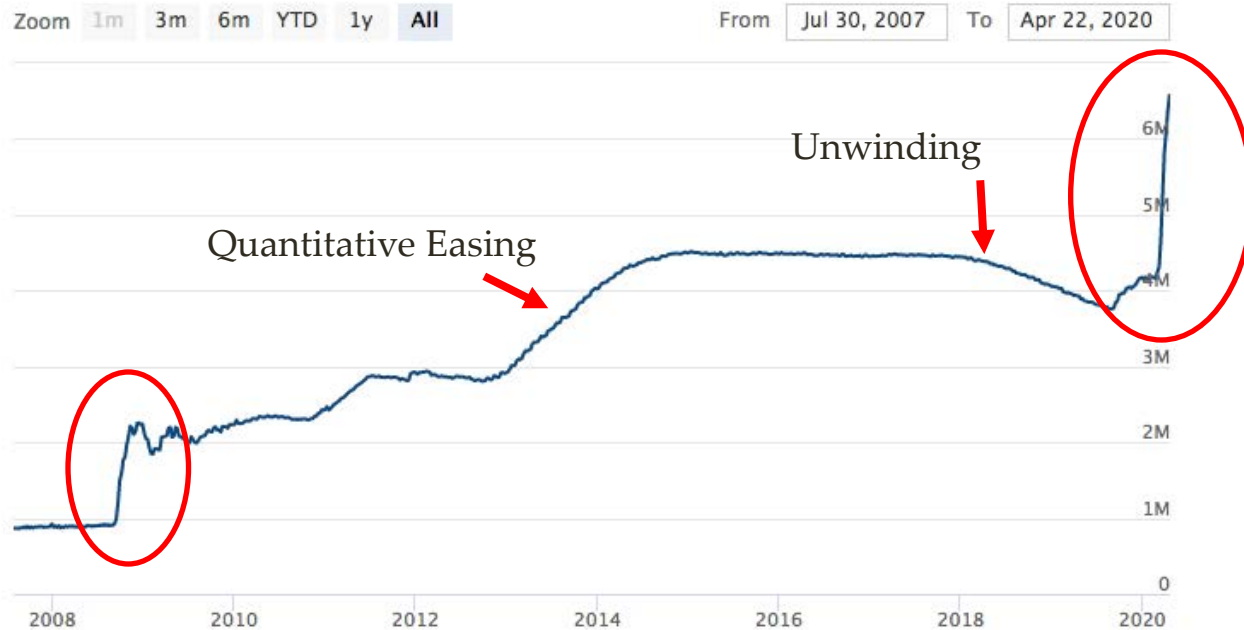
Printing Money



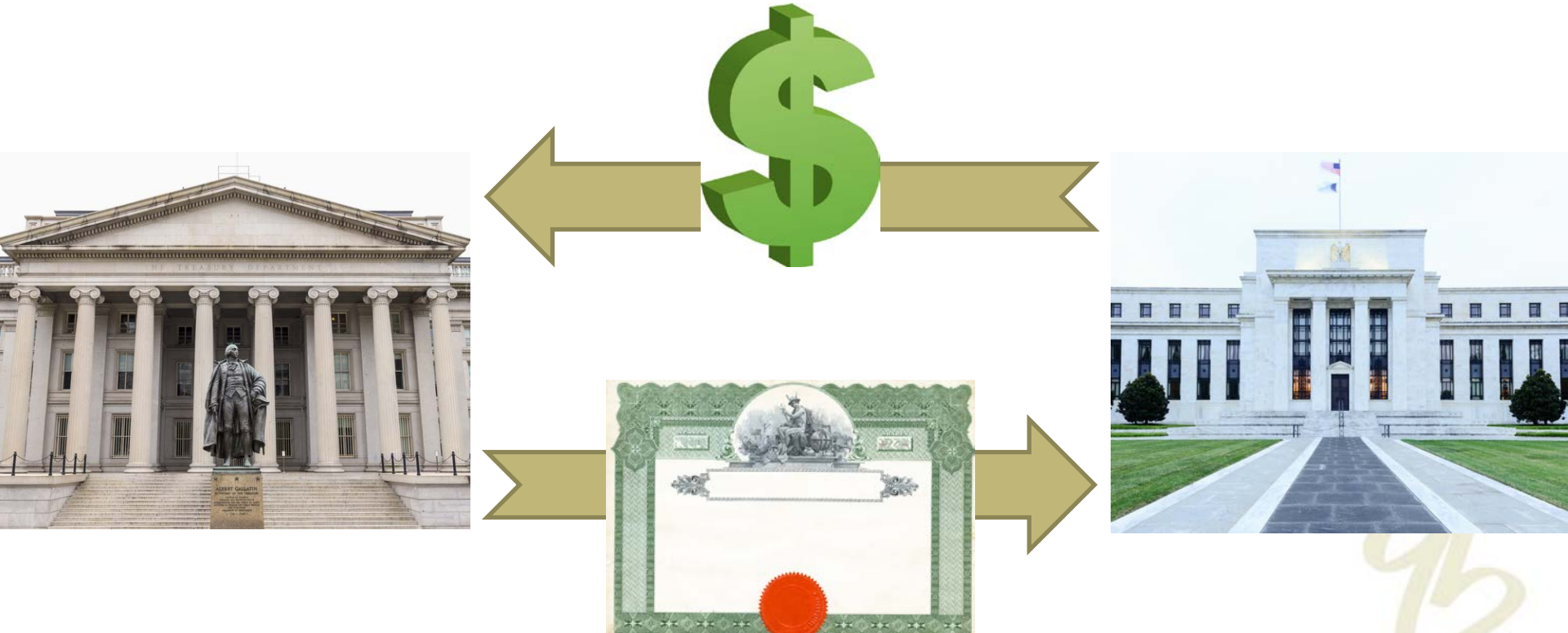
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The Fed's Balance Sheet

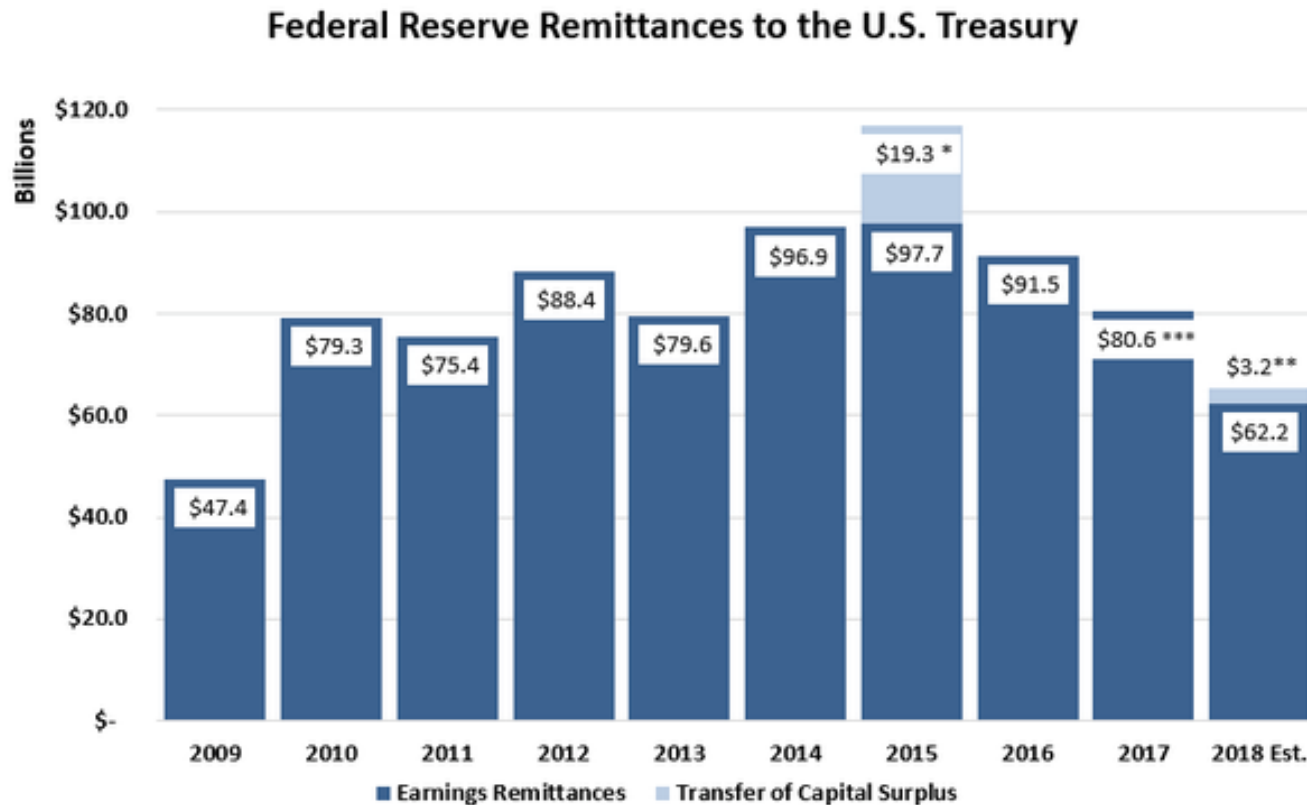
- Expected to rise from \$4 trillion last year to \$11 trillion.
- The Fed bought \$1.6 trillion in Treasury debt so far this year, effectively financing 40% of the projected \$3.8 trillion deficit.



The Fed's Balance Sheet



Fed Remittances to US Treasury



More about inflation

- Why a little inflation is a good thing.
- The Fed's inflation target.
- Why has inflation been so low?
- Globalization.
- Global savings glut.
- Current slack.

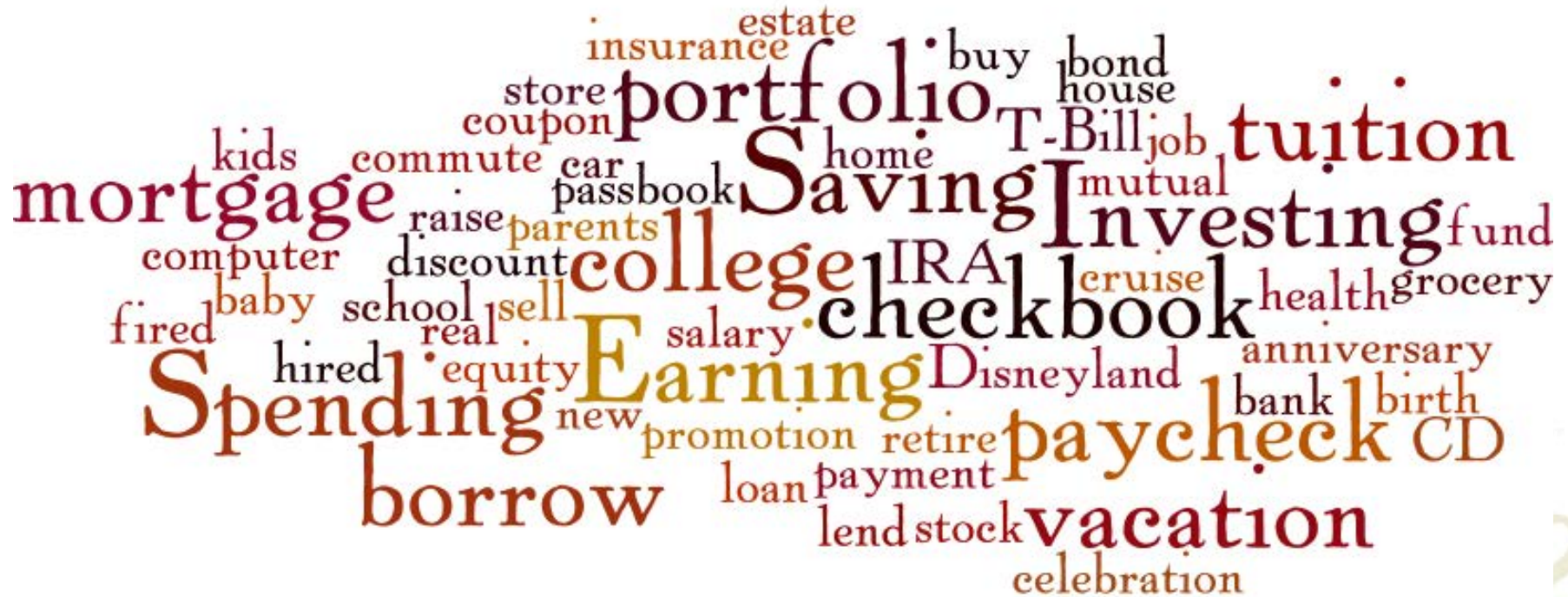


More about inflation

- What are markets telling us?
- Bond market is currently predicting a Fed Funds rate of 1% five years from now.
- TIPS suggesting inflation of 1.5% over the next five to ten years.



Questions?



The Phoenix

And don't lie to me, you cried.



Thank you for joining us!

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