COMMENTARY

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Needed Stimulus Delayed as Congress Can't Agree

- Fiscal stimulus plan fails to pass first hurdle in the Senate.
- Federal Reserve announces more aggressive monetary stimulus.
- In times of uncertainty, your financial professional can help you stay on track.

As investors return from the weekend, stock markets again look to be volatile. While disappointed investors wait for Congress to settle their political differences, the Federal Reserve (Fed) announced a barrage of programs to support the financial markets. Investors remain hopeful that Congress can come together to pass a much-needed fiscal stimulus plan to combat the financial implications caused by COVID-19. They also hope that the Fed's measures help the financial markets operate more efficiently in the meantime. The ever-changing fiscal and monetary stimulus picture targets economic disruption caused by the virus. However, significant market improvement may not occur until we see positive news on the transmission of the virus.

On the fiscal front, many had hoped that the very politically divided congress could rally and come together to swiftly pass a needed fiscal stimulus plan. Small businesses like restaurants, nail salons, and bars, just to name a few, need loans to pay bills while they are not operating. Airlines, hotels, and other large businesses will also need loans to bridge the gap while in limited operation. Workers, and specifically hourly wage workers, also need assistance as they are not getting paid, being furloughed, or losing their jobs. The United States is a consumer-driven economy, with consumer spending making up over two-thirds of the economy, and now consumers are not spending. Unfortunately, the Senate was unable to agree on a package on Sunday.

The proposed package needed 60 votes and instead failed in a 47-47 vote. The package that was voted down would have brought $1.3 trillion of relief. The Democrats felt that the Republican proposed package did not do enough for the workers and too much for large businesses. The longer politicians take to hammer out the details, the more anxious investors will get. While the delay is disappointing, we feel they will come to an agreement sooner than later. Both sides know workers and businesses alike need help. Businesses hire workers, which in turn purchase products and services from businesses. In addition, workers invest in corporations for their retirements. There is a feedback loop and both sides are important. We feel both parties know this is too important to delay too long. Many people are depending on them getting a deal done soon.

Turning to monetary policy, on Monday, the Fed announced a slew of new programs to help improve market functioning. These include a commitment to continue its asset purchasing program as necessary without limits on the amount, a lending program for businesses, and other programs that the Fed feels will help the "effective transmission of monetary policy to broader financial conditions and the economy." In its most aggressive market intervention so far during this financial crisis, the Fed is pulling out all stops to improve lending and help drive investor confidence. For example, it had previously announced it would buy $700 billion worth of treasuries and mortgage-backed securities. Monday's announcement now represents a limitless commitment to purchasing these securities. The Fed undertook these measures as it became more and more clear that the credit markets were struggling, as evidenced by the sharp increase in borrowing costs, and lending to businesses was coming to a standstill.

The Fed also announced plans for two lending facilities to support corporate credit markets. They will now lend to investment-grade companies, providing bridge financing of four years, and they will buy corporate bonds issued by highly rated companies and investment-grade corporate exchange traded funds. Also, with not a lot of details at this time, the Fed plans to lend directly to small businesses.

Looking ahead, the Fed's moves helped to reverse negative investor sentiment for the time being and, despite political wrangling, we feel both political parties know fiscal stimulus is too important to fail. These should eventually help alleviate some virus-driven economic concerns, however, for a more meaningful improvement in investor sentiment, we need to see positive news on the transmission of the virus. There is no doubt the number of cases will rise as more testing kits become available. Deaths will also rise as the virus spreads. The news in the coming weeks will likely be troublesome. However, stock markets are leading indicators and took much of this into account already as the markets dropped in recent weeks. Investors will be looking for clues on how long the virus will persist and how long businesses will be closed or operating with limited operations. A vaccine or treatment would be welcomed news.

These are challenging times, but your financial professional can help you stay on course. It is important to review your financial goals and objectives periodically and focus on your long-term goals.

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Glossary

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The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index includes over 2,500 companies, spanning all 11 sector groups.