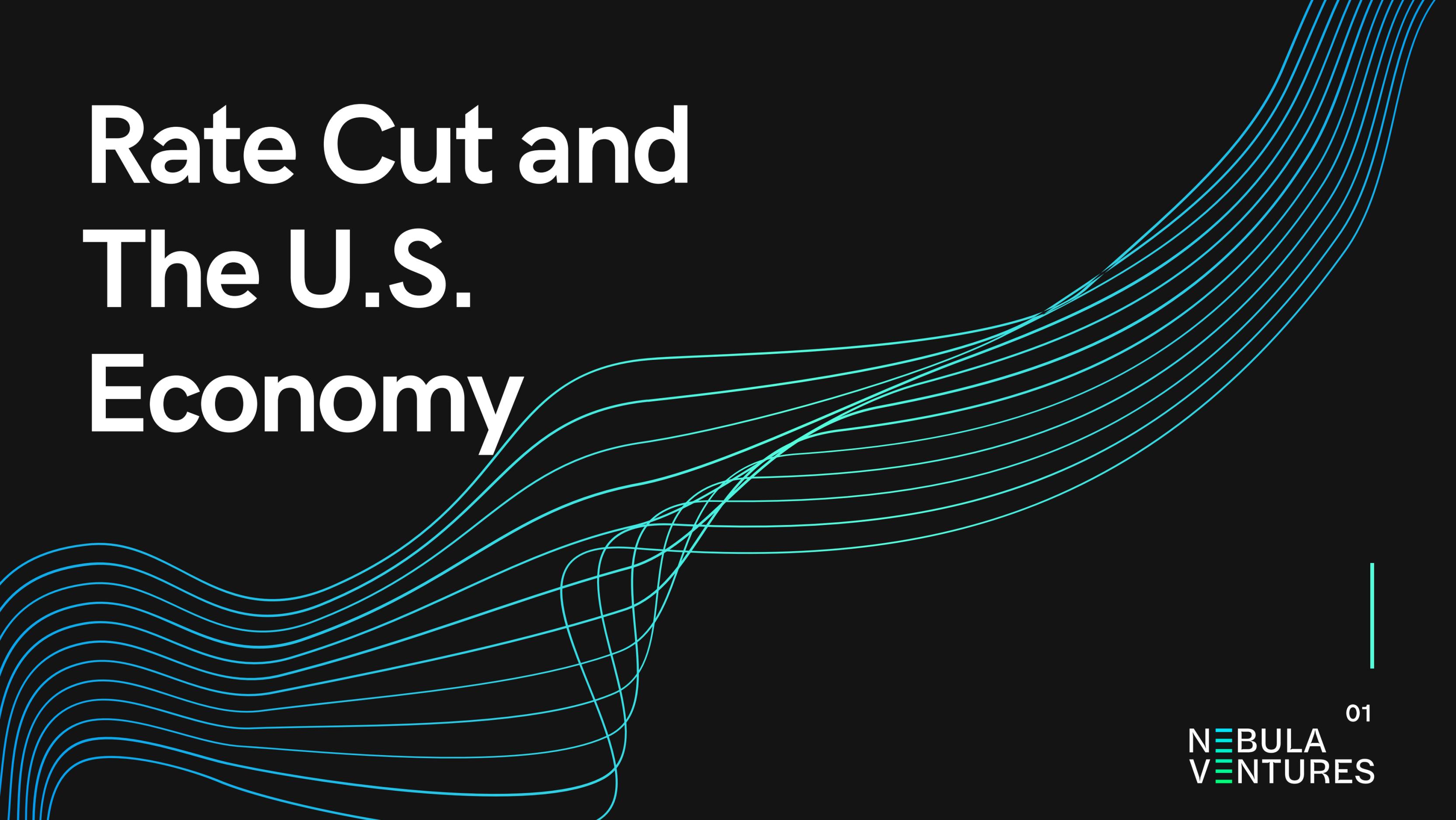


Rate Cut and The U.S. Economy



The FED

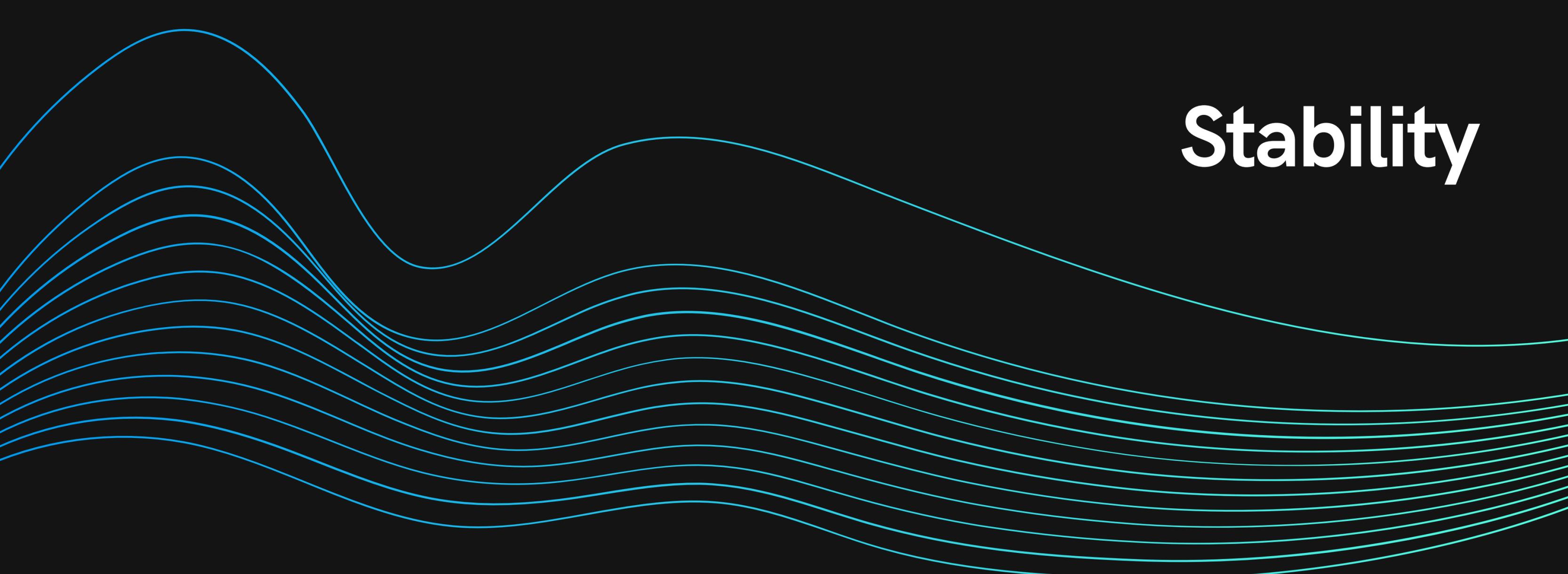


RATE CUT

On Sunday, the Fed announced it would drop interest rates to zero and buy at least \$700 billion in government and mortgage-related bonds.

WHY?

This is part of a wide-ranging emergency action to protect the economy from the impact of the coronavirus outbreak.



Stability

NOT SEEN SINCE 2008

Such moves haven't been seen since the 2008 financial crisis and the Fed have looked to act quickly, with the aim of keeping financial markets stable and making borrowing costs as low as possible.



Jerome Powell Comments



HARDSHIP

“Economic policy experts must do what we can to ease hardships caused by the disruption,”

CREDIT FLOW

“We are prepared to use our full range of tools to support the flow of credit to help households and businesses.”

WEATHER THE STORM

“weather this difficult period” and “foster a more vigorous return to normal once the disruptions from the coronavirus abate,”

Market Reaction



Stock futures slumped after the Fed's announcement with the Dow Jones industrial average set to open down more than 1,000 points on Monday.



America's largest banks announced shortly after that they will stop share buy-backs and instead, use that money for loans.



These actions by the Fed have raised concerns that the economy might be in worse shape than what many economists thought.

Low Rates For How Long?

It is expected that the ultra low interest rates will remain in place until the U.S. economy recovers from the coronavirus downturn.

“The [Fed] expects to maintain this target range until it is confident that the economy has weathered recent events,” the central bank wrote in a statement.

Risks

It appears that the Fed has left itself open to risk, as it deployed much of its arsenal Sunday.

What else will the Fed do if these moves prove to be inadequate? Further Bond purchases could be made, however many agree that this move may be too much too soon.



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