

INVESTMENT COUNSEL AND MANAGEMENT

Fed Alert: Capital Economics

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Fed to lower rates to near-zero

Capital Economics, in a note to clients released yesterday, said that they expect the Fed to cut interest rates by an additional 50 basis points at the scheduled FOMC meeting next week, with a final 50 basis-point cut at the April meeting, taking the fed funds rate back to its crisis-era level of between 0.0% and 0.25%.

Capital Economics noted further that while Fed officials would prefer to wait for more tangible evidence that the spread of the coronavirus was disrupting domestic economic activity, the fragile state of financial markets and the rapid spread of the virus in Europe and North America means that officials don't have the luxury of being able to wait for incoming economic data to be released.

Capital Economics expects GDP growth to come in at 2.0% on an annualized basis in the first quarter. For the second quarter, they have penciled in no change in GDP. By the time the third quarter arrives, the warmer weather should limit the spread of the virus, according to their analysis, with GDP growth beginning to bounce back.

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Source for the information in this update is Capital Economics.

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