Fed Alert / Markets Update as of March 16, 2020

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Fed Funds Futures Market

On Sunday, the Federal Reserve cut the federal funds rate by another 100 bps down to a 0-25 bps range. The Fed has now dropped rates 150 bps in the span of 12 days.

In a statement, the Fed noted the coronavirus outbreak has "harmed communities and disrupted economic activity in many countries, including the United States." Furthermore, the pandemic has "significantly affected" global financial conditions. The Committee remains confident that the U.S. economy entered into this "challenging period" on a strong footing, however, as the coronavirus will expectedly weigh on economic activity in the near term and pose significant risks to the economic outlook, further accommodation was warranted.

10 Year U.S. Treasury Market

The 10-year Treasury rate dropped about 15 bps on the news of the Fed's surprise Sunday afternoon cut. In the latter half of last week, the benchmark 10-year had backed up to about 85 bps and rates around the world generally followed suit with most developed countries seeing their Sovereign 10-year rate increasing 20 to 30 bps. High yield sovereign paper has seen material rate increases as credit products have been sold by investors in favor of cash positions. Over the past month, Brazil +135 bps, Greece +116, Mexico +111 and Italy +86 have all sold off. During the same period, the U.S. 10-year has fallen 93 bps.

U.S. Equity Markets

In early-morning trading, U.S. equity futures tumbled by their limits as investors respond to the rapidly escalating economic hit from the coronavirus and a massive emergency move by the Federal Reserve to encourage lending. Futures contracts on the S&P 500, Nasdaq 100 and Dow Jones Industrial Average all sank almost 5%, tripping their market circuit breakers and halting trading at the open.

This all comes after last week saw U.S. stocks surge the most since October 2008 as President Trump reassured investors his administration is taking measures to combat the coronavirus, including virus testing and bolstering the oil market. The S&P 500 rallied 9.2% on Friday, paring its weekly drop to 8.9%.

Goldman Sachs Commentary

On Sunday, Jan Hatzius, Goldman's chief economist, lowered his first-quarter GDP growth forecast to zero from 0.7%. The economist also sees a 5% contraction in the second quarter, followed by a sharp snapback for the remainder of the year. "We expect US economic activity to contract sharply in the remainder of March and throughout April as virus fears lead consumers and businesses to continue to cut back on spending such as travel, entertainment, and restaurant meals," Hatzius said in a note to clients Sunday.

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Global Interest Rates (as of 9:20 pm on 3/15/2020)

10 Year Government Rates	
Brazil	7.75%
Mexico	7.63%
India	6.32%
Greece	2.04%
Italy	1.78%
South Korea	1.62%
Singapore	1.31%
New Zealand	1.00%
Canada	0.84%
Portugal	0.80%
Australia	0.79%
Hong Kong	0.77%
U.S.	**0.67%**
Spain	0.61%
U.K.	0.40%
Japan	0.00%
France	0.00%
Netherlands	-0.25%
Germany	-0.55%
Switzerland	-0.63%