Financial Markets and Updated Economic Forecasts
as of 4/13/2020

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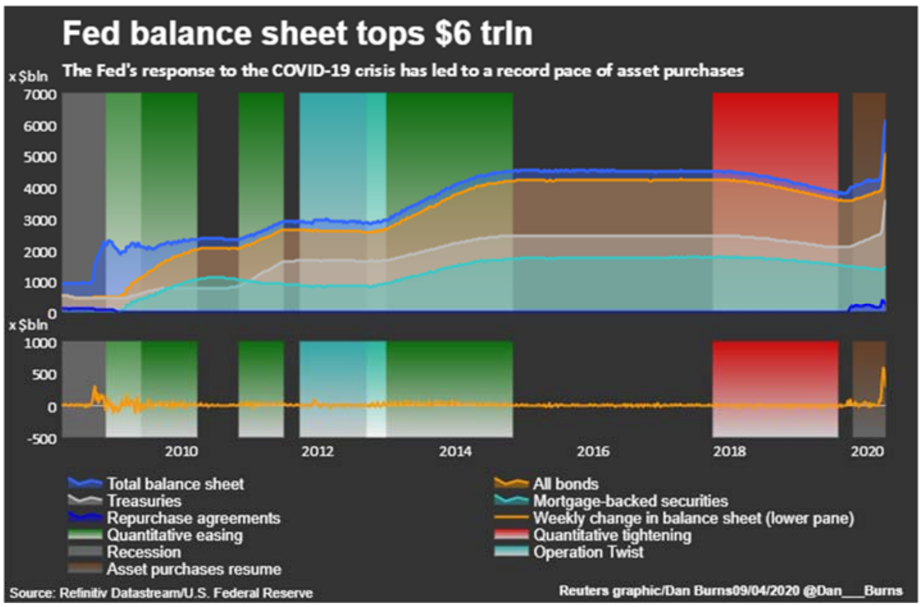
Federal Reserve

Reuters reported on Thursday that the Fed's balance sheet increased to a record $6.13 trillion as the central bank used its nearly unlimited buying power to soak up assets and keep markets functioning smoothly. In the four weeks since the Fed slashed interest rates to zero, restarted bond purchases and rolled out an unprecedented range of programs to limit the economic damage from the outbreak, the central bank's balance sheet has jumped by about $1.7 trillion. Bond holdings surpassed $5 trillion for the first time. The balance sheet is equal to roughly 25% of pre-crisis annual GDP.



U.S. Markets

For a second week in a row, the equity market showed strong reaction to the news cycle. While we want to be an optimist, we are still concerned about the underlying issues that the equity market seems to be heavily discounting. We are receiving positive news that social distancing is working and that does provide more confidence for our economic future. However, the current economic news (jobless claims) is dismal and we have yet to see the real numbers from the shelter-in-place that are released on a lagging basis.

On the bond front, everything is about the Federal Reserve's ever-growing blanket of support. The Fed has already far outstripped the size of the programs instituted during the GFC of 2008/2009. Last Thursday's announcement of the another $2.3 trillion in largess means the Fed is reaching into previously uncharted territory in both size and in the scope. The Fed plans to reinforce more (and larger) businesses besides the existing PPP program and will now support states and the largest cities and counties with the Municipal Liquidity Facility.

All of this has soothed the fear factor both in equities and bonds. Whenever there appears to be a dislocation in a segment of the market, the Fed has stepped in with some type of buttress. We have recently grown to expect a new Fed press release to stay our current area of concern.

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Economic News and Outlook

Goldman Sachs

In a note to clients on Sunday, Goldman said that oil prices would continue to fall in the coming weeks, reasoning that a "historic yet insufficient" deal by major oil producers to cut output is unlikely to offset a coronavirus-led demand rout. Goldman sees downside risks to its short-term oil price forecast of around $20 per barrel for Brent crude, but projected the global crude benchmark would outperform U.S. oil because OPEC+ producers' exports would likely fall, freeing up floating storage space. Even with core-OPEC members fully complying with the production cuts, and 50% compliance by all other countries that have agreed to curb production in May, the voluntary cuts would translate into a reduction of only 4.3 million barrels per day from first-quarter levels.

J.P. Morgan

On Thursday, J.P. Morgan issued a more dire economic forecast, now foreseeing a 40% decline in the U.S. GDP for the second quarter and a surge in April's unemployment rate to 20% with 25 million jobs lost. In an earlier forecast, they said second-quarter GDP would be down 25%. In explaining some of their change, J.P. Morgan said they initially considered the impact on demand, looking at the type of spending cuts that would come as social distancing was expanded and increased in duration. They said they later looked at the supply side impact, as stay-at-home orders increased and limited the quality and effectiveness of labor as a factor of production. They continue to see a second-half recovery, based on the assumption that disruptions from the pandemic fade by June. They expect the 3rd quarter to rebound with growth of 23%, and a 4th quarter increase of 13%. J.P Morgan expects a 10% decline in the 1st quarter.

Global Interest Rates (as of 10:00 am on 4/12/2020) and Week over Week Change

10 Year Government Rates		
Mexico	7.06%	(53 bps)
India	6.49%	+17 bps
Greece	1.74%	(32 bps)
Italy	1.58%	(20 bps)
South Korea	1.47%	(14 bps)
New Zealand	1.16%	(1 bps)
Singapore	1.07%	(38 bps)
Australia	0.90%	(7 bps)
Portugal	0.89%	+9 bps
Spain	0.77%	+16 bps
U.S.	0.74%	(22 bps)
Canada	0.74%	(10 bps)
Hong Kong	0.59%	+3 bps
U.K.	0.30%	(11 bps)
France	0.09%	+9 bps
Japan	0.00%	(1 bps)
Netherlands	-0.10%	+16 bps
Germany	-0.36%	+20 bps
Switzerland	-0.40%	+22 bps