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Thoughts on Fed Action and the "Costs" of Market Timing.

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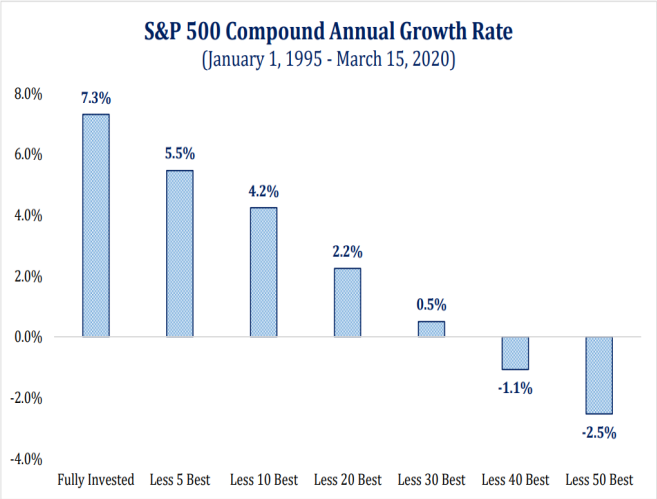
March 16, 2020

THE SOONER THE CRISIS IS ADDRESSED, THE MORE QUICKLY MARKETS CAN BOTTOM

We received a number of inquiries from clients last night regarding our thoughts on the wisdom of the Fed's decision to cut the Fed Funds rate to zero and to start a new $700 billion QE program, $500 billion in Treasury purchases and $200 billion in mortgages.

We have not been fans of QE forever, "financial repression," or negative interest rates, believing they do more harm than good over the long term. Still, one must recognize that, at a certain point, central banks are no longer in control. As of Friday, the entire yield curve was below the Fed Funds rate and the discount rate. That was an implicit tightening on the part of the Fed. Because financial conditions had tightened so meaningfully, we believe the Fed had no real choice but to do what they did last night. **We can't say this will "work" in the short term but we can say that this should mitigate the pain of the deflationary shock of the coronavirus.** To be frank, there is very little the federal government or the Fed can do now aside from providing the economy with ample liquidity.

The good news is that, going into this crisis, there were few concerns about solvency in the broader economy. We argue that, at least as of now, that is still the case. What the Fed and the Administration are trying to do is provide, in essence, a bridge loan so that a liquidity crisis doesn't become a solvency issue. It is, naturally, a supreme conceit to second guess the Fed or the Administration without being in the room. As John Kenneth Galbraith once said, "there are two types of economists, those that don't know and those that don't know they don't know." We know we don't know but we think the quicker there is confidence that the health crisis is being addressed properly, the more quickly the economy and the markets can bottom. We also know that market timing is often a fools' errand, as the charts below indicate. In the last three days, policymakers have made it clear that they are willing to do whatever it takes.



Source: Standard & Poor's

THE BEST DAYS ARE OFTEN MIXED WITHIN SELL-OFFS

50 Best Days For S&P 500 From January 1, 1995 - March 15, 2020

Rank	Date	S&P 500 Return	Rank	Date	S&P 500 Return	Rank	Date	S&P 500 Return
1	10/13/2008	11.6%	18	10/20/2008	4.8%	35	9/19/2008	4.0%
2	10/28/2008	10.8%	19	3/16/2000	4.8%	36	2/24/2009	4.0%
3	3/13/2020	9.3%	20	8/9/2011	4.7%	37	8/14/2002	4.0%
4	3/23/2009	7.1%	21	10/15/2002	4.7%	38	10/1/2002	4.0%
5	11/13/2008	6.9%	22	8/11/2011	4.6%	39	12/2/2008	4.0%
6	11/24/2008	6.5%	23	3/2/2020	4.6%	40	10/11/2002	3.9%
7	3/10/2009	6.4%	24	5/10/2010	4.4%	41	8/26/2015	3.9%
8	11/21/2008	6.3%	25	4/5/2001	4.4%	42	9/24/2001	3.9%
9	7/24/2002	5.7%	26	1/21/2009	4.3%	43	12/5/2000	3.9%
10	9/30/2008	5.4%	27	9/18/2008	4.3%	44	4/18/2001	3.9%
11	7/29/2002	5.4%	28	11/30/2011	4.3%	45	9/1/1998	3.9%
12	12/16/2008	5.1%	29	10/16/2008	4.3%	46	12/8/2008	3.8%
13	10/28/1997	5.1%	30	3/18/2008	4.2%	47	4/9/2009	3.8%
14	9/8/1998	5.1%	31	3/4/2020	4.2%	48	5/8/2002	3.7%
15	1/3/2001	5.0%	32	10/15/1998	4.2%	49	3/11/2008	3.7%
16	12/26/2018	5.0%	33	11/4/2008	4.1%	50	7/5/2002	3.7%
17	3/10/2020	4.9%	34	3/12/2009	4.1%			

Source: Standard & Poor's

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