The Fed Announces a Fresh Round of Stimulus

On April 9th, Jerome Powell and the Federal Reserve announced $2.3 trillion in new programs to support the US economy. These programs add to existing measures that were announced by the Fed in March and those created by Congress under the CARES Act. Most notably, the Fed announced they would...

- begin buying corporate junk bonds
- create a Main Street Lending Program that will provide up to $600 billion to medium-sized businesses
- create a Municipal Liquidity Facility that will provide up to $500 billion to states and municipalities

We've spent the last several days breaking down this announcement, and below you'll find a more detailed analysis of the key takeaways. If you have any questions about the information discussed below, please don't hesitate to connect with your team at TrinityPoint Wealth.

On March 12th, the Federal Reserve rolled out a series of initiatives aimed at preventing the recession caused by the COVID-19 pandemic from becoming a depression. Totaling $1.5 trillion, these initiatives included a plan to buy investment-grade commercial bonds, the purchase of commercial mortgage-backed securities, and the creation of three new credit facilities.[1]

While these efforts did provide much-needed stability, weekly unemployment figures have continued to paint a bleak picture: The Labor Department reported that 6.6 million new unemployment applications were received the week ending April 4th, and this was on the heels of 6.9 million claims and 3.3 million claims for the weeks ending March 28th and March 21st, respectively.[2]

It was within this context that on April 9th, Federal Reserve Chairman Jerome Powell announced a second round of programs and measures—totaling $2.3 trillion—to support the U.S. economy.

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[1] CNN, *Fed takes emergency action to stave off a depression.* (Link)

[2] WSJ, *U.S. Jobless Claims Soar for Third Straight Week* (Link)

The Fed enters the corporate junk bond market

Most surprising was the Fed's decision to begin purchasing high-yield (or "junk") corporate bonds, expanding on their move in late March to purchase investment-grade corporate bonds and bond funds. In our view, this shows the Fed's willingness to take unprecedented steps to support the economy during this pandemic.

The Fed's corporate bond purchases will be made in the primary market, where bonds are purchased directly from the issuing company, and in the secondary market, where bonds are re-sold on an exchange. Both the primary and secondary markets have suffered a liquidity crisis in recent weeks as the number of sellers has vastly outnumbered buyers. This announcement means that the Fed will be a buyer going forward.

Fallen angels

The Fed's decision to enter the high-yield corporate bond market is specifically designed to support "fallen angels": companies that have recently lost their investment-grade rating and are now considered junk.

In order for a company to qualify as a fallen angel, the company must have had a rating of at least BBB-/Baa3 by two or more credit agencies as of March 22nd of this year, and their current rating cannot be lower than BB-/Ba3. Notable companies that meet this criteria are Ford Motor Company, Macy's, and Kraft Heinz.

The Fed entering the high-yield portion of the corporate bond market will likely create fixed-income opportunities in the coming weeks and months. As a result, our investment committee is following this decision closely in order to make strategic adjustments to client portfolios.

New loans for small and medium-sized businesses

The Fed also announced that $600 billion worth of new loans will be available to small and mid-sized businesses through the Main Street Lending Program. These funds will be distributed through two different lending facilities, and this new program is separate from the Payroll Protection Program (PPP) which is administered by the Small Business Administration.[3]

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[3] Wall Street Journal, *The Fed's Main Street Lending Program: Who's Eligible?* (Link)

Program details & who can apply
These loans will be accessible to businesses with up to 10,000 employees or up to $2.5 billion in revenue in 2019. Loan amounts will generally be in the $1 to $25 million range, and loan terms are for four years with interest payments deferred for the first year. It looks like the rate on these loans will be the Fed's current overnight rate (0.01% for now) plus 2.50%–4.00%.

As with the PPP, the distribution of these loans will be handled by major banks. Each bank must retain a 5% interest in each issued loan, and the Main Street Lending Facility will hold the remaining balance. The Treasury department will provide a "backstop" of $75 billion to manage losses on issued loans.

We know this is an extremely difficult time for business owners, many of whom have had to make tough decisions in recent weeks. We've been inspired by how our business owner clients have responded and adjusted to this crisis: just one local example, Thermaxx Jackets, recently pivoted to making personal protective equipment (PPE) gowns for frontline medical providers.[4]

In recent weeks, we've helped a number of our business-owner clients navigate the PPP. Depending on the size and scope of your operation, this announcement from the Fed could provide your business with additional support, and we encourage you to connect with our team.

Lending for state and local governments

In an effort to support state and local governments that have been hit hard financially by the COVID-19 pandemic, the Fed also announced it will make $500 billion in low-interest loans available to municipalities. As with the Main Street Lending Facility, the Treasury will "backstop" $35 billion on loans issued to municipalities.

A historic initiative
While the Fed has purchased Treasuries in the past, it has always been hesitant to enter the municipal bond market. Unlike the U.S. Treasury, which can effectively create money to satisfy its outstanding debts, states and local governments do not have this power.

The Treasury can also carry a fiscal deficit if necessary; the vast majority of state and local governments, on the other hand, have a legal and/or constitutional requirement to keep a balanced budget. This lack of flexibility on the issuer side increases the Fed's potential risk as a

[4] WSFB, *West Haven insulation company making medical gowns*. (Link)

prospective bondholder; therefore, for now, it appears that the Fed will primarily limit its municipal bond purchases to short-term debt.

Final thoughts

Undoubtedly, these are uncertain times. And now more than ever, our mission is to be a consistent, steady, and guiding force for your financial life. Whether you have immediate concerns about your business, or you need a little help with your long-term wealth management strategy, TrinityPoint Wealth is here to support your well-being. We are all in this together.

Sincerely,

James A. Betzig
Partner, Chief Executive Officer

Dana Mascalo
Managing Partner, Senior Wealth Advisor

Lise Robinson
Partner, Senior Wealth Advisor

W. Michael Smiley
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IMPORTANT DISCLOSURE