



Week In Review

March 13, 2020

COVID-19

COVID-19 cases outside of Hubei province and South Korea continued to rise and to spread geographically. Italy instituted extreme measures to slow the spread of the virus there. The U.S. began to see widespread efforts to create social distancing, including the cancellation of many events as well as school closures. The Fed and other central banks intervened to provide liquidity to funding markets, and many nations are readying fiscal stimulus measures as well as targeted actions to help offset the impact of the virus control measures on incomes. Capital markets continued to move away from risk assets as the likely economic impact of the pandemic appears even worse.

Our Take: The actions being taken worldwide to combat the virus will have a negative effect on growth. How long and how severe this negative impact will be is not yet known. Also unknown is the extent to which the growth disruption pushes leveraged firms and nations into financial distress, which would have a longer-lasting negative effect on growth.

The Fed

The Fed announced a new initiative in an effort to calm the market and ease “temporary disruptions” in Treasury financing markets. The New York Fed stated it would offer \$500 billion in a three-month repo operation both Thursday and Friday as well as an additional \$500 billion in a one-month operation. In total, the moves provide up to \$1.5 trillion into the short-term funding markets. In addition, the Fed said it would shift its monthly reserve management purchases of \$60 billion, previously limited to short-term Treasury bills, toward a broader range of maturities in order to maintain liquidity across the maturity spectrum.

Our Take: The Fed is stepping in aggressively to provide liquidity and calm the market. All eyes are on next week’s FOMC meeting where the Fed is expected to make further cuts to interest rates.

Oil

OPEC and Russia failed to reach an agreement on production limits in the face of declining crude demand due to the global response to the COVID-19 pandemic. Both Saudi Arabia and Russia have pledged to drastically increase production over the next few weeks, and both are sharply discounting prices for crude cargoes. Benchmark crude prices fell by close to a third.

Our Take: Crude prices are likely to remain at a low level until OPEC and Russia reach another agreement or U.S. shale production declines significantly.

Municipals

Alaskan officials suspended most out-of-state travel and implemented a hiring freeze for state employees in response to the decline in oil prices this week.

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Our Take: Alaska's state budget assumes \$59 per barrel oil. This week's drop in oil prices adds strain to Alaska's finances. Should oil prices remain low, other action besides the hiring freeze and limiting travel will likely be taken to respond to a future budget shortfall.

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