



Fed Flood

The Federal Reserve slashed rates to near zero Sunday evening.

The Federal Reserve pulled out almost all the stops on Sunday evening, lowering the fed funds target range by 100 basis points to a range of 0% to 0.25%. The Fed also announced intention to buy \$500 billion of Treasury securities and \$200 billion of agency mortgage-backed securities. It will coordinate with other central banks on enhanced dollar swap lines to ensure there is sufficient dollar liquidity in the system. In addition, it lowered the discount rate by 150 basis points to 0.25%, eliminated bank reserve requirements, and encouraged banks to use intraday credit.

During a press conference call, Chair Jerome Powell emphasized that the strong actions were taken to benefit financial markets, in particular to restore smooth market functioning of the vital Treasury and agency mortgage-backed markets. Powell left the door open for the Fed to use additional tools. He also referenced ongoing discussions with Treasury Secretary Steven Mnuchin, which may reflect the potential for more targeted liquidity facilities to address potential strains in specific markets, such as the commercial paper market.

The actions by the Fed were unexpectedly aggressive, but the resulting accommodative market conditions should be supportive of households and businesses until the effects of the coronavirus have run their course. Powell highlighted the strength of the economy heading into this event and reiterated the Fed's view that it will return to solid growth. Federated continues to closely monitor the functioning of the short-term markets and make portfolio adjustments as appropriate.

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