Weekly Commentary

MARCH 20, 2020

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Fed acts again and again

With still more uncertainties and financial market volatility caused by the coronavirus, the Federal Reserve unveiled even more action this week. Actually, it started things off on the weekend. Sunday, the Fed slashed the fed funds target range by 100 basis points to a range of 0% to 0.25% and announced intention to buy $500 billion of Treasury securities and $200 billion of agency mortgage-backed securities.

Tuesday, it said it would buy commercial paper directly from the marketplace to support broad primary market funding needs and that it would offer overnight-to-90 day term loans to its primary dealers. The Fed referred to these programs as the Commercial Paper Funding Facility (CPFF) and the Primary Dealer Credit Facility (PDCF), respectively.

Then on Wednesday, the Fed established the Money Market Liquidity Facility (MMLF) to enhance secondary market liquidity. Late in the week this was expanded to include short-term municipal securities.

We believe all of these moves address the liquidity concerns in the broader money markets and inventory capacity on market makers' balance sheets.

The London interbank offered rate (Libor) rose last week, ending Friday with 1-month at 0.93%, 3-month at 1.20% and 6-month at 0.99%.

G40461-19 (3/20)