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Weekly Commentary

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All eyes on the Fed

So much for the Federal Reserve's desire to take its time before altering its policy rate this year. Coming into 2020, the Fed expressed it wanted to see how the U.S. economy fared after it cut rates three times in 2019. It appeared the moves had made a difference. Many indicators remained stout and others showed signs of improving. Demographics and strong employment boosted the housing market in the new year, and even the long maligned manufacturing sector looked like it was turning around.

But the health scare caused by the coronavirus upset that plan, and many now think the Fed will cut rates at its Federal Open Market Committee meeting on March 18. Some think that cut might be 50 basis points, a size the Fed has not used for some time. For its part, the Fed simply has said it is ready to act. While it's debatable what impact a rate cut might actually have on the market, part of the Fed's job is to manage investor and business expectations. While a cut won't have any immediate economic effect—monetary policy operates with a lag, meaning it takes time for changes to make a difference—if people and corporations think the Fed is on top of the issue, they might forge ahead with purchases or capital expenditures they wouldn't otherwise have done. What the Fed needs to do now is to talk the market in the right direction. This week will be crucial for its leadership.

The London interbank offered rate (Libor) fell last week amid the market rout: 1-month Libor fell from 1.63% to 1.52%, 3-month decreased from 1.68% to 1.46% and 6-month dropped from 1.67% to 1.40%.

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