

The First Tee...

Socialism for Survival...the relief programs have the government/Fed taking stakes in private and public entities...the coronavirus has turned every portion of the economy into a bailout candidate:

- Congress has authorized \$450 billion for the Treasury Department to utilize in association with new plan of action the Fed has leveraged-up for a \$4.5 trillion loan program:
 - Since the government is the only entity that can run a sustained deficit, it can fill the role as the buyer of last resort...the stimulus spending has pushed the government deficit to above 20% of GDP (the most since WWII).
- To boldly go where no man has gone before...Fed Chairman Powell and the Fed have moved into credit allocation which is virtually a total redesign of Central Bank authority and powers:
 - By definition, the Fed is not allowed to make loans or buy securities for corporations and small businesses, as well as asset-back securities...they only have authority to purchase or lend against government backed securities:
 - To be able to execute these buying/lending functions, the Fed will finance through a special purpose vehicle (SPV):
 - The Treasury Department will use the Exchange Stabilization Fund to make an equity investment in each SPV (in a first loss position):
 - In essence, the Treasury, not the Fed, is buying these securities and backstopping the loans (the Fed provides the financing).
 - The CARES Act has placed the Fed into an intimate relationship with the Treasury Department (*Jerome Powell and Steve Mnuchin best buds?*)
 - The result of these actions is the government **nationalizing** a large portion of the financial markets:
 - In effect, the Fed is giving the Treasury access to its money printing presses (*maybe this will be called gyro-copter money!*)
 - Regarding the government bond buying program, the Fed has eased their weekly amount of purchases...if the Central Bank continues the buying pace seen in March, it will own two-thirds of the Treasury market in a year.
 - Friends and Family...now that the Fed is diving into helping fund credit sensitive issuers, the question becomes who are the can haves and cannot haves (monetary and fiscal policy picking winners and losers?):
 - It seems fairly obvious emergency assistance needs to be broad-based, but a line will be drawn:
 - Companies and municipalities left-out of relief will push-back...and the process will be subject to extreme political review.
 - Another aspect of lending to various levels of rated credits involves how the market prices issues:
 - If securities are being priced on the premise they have a federal government back-stop, this would allow borrowers to issue more debt at lower rates and expose the government to larger default risks (especially for non-investment grade credits):
 - In a similar situation, this was evidenced in municipal issuers securing private bond insurance on their debt prior to the financial crisis...regardless of the issuers underlying credit rating, if the debt was insured by a AAA rated firm the bond rating would be AAA as well:
 - This practice came unwound during the crisis as it became evident the insurance firms did not have the capital to support multiple defaults.
 - The government is currently in survival mode, but we could be dealing with the aftermath of some of their financial decisions for years after the coronavirus is history.

All you need is LUV...analysts are eating alphabet soup while trying to discern the shape of the COVID-19 economic cycle (certainly, a V-shaped recovery is on everyone's wish list):

- Time appears to be the wild-card as the longer the economy is shut-down, the greater the damage:
 - A U-shaped bounce currently appears to be the most likely, the massive amounts of stimulus should soften the downward blow but it will take some time to return to normalcy (consumer confidence restoration):
 - An undesirable L-shaped cycle would have higher probabilities if the pandemic persists and there are delays in the development of coronavirus antidotes and vaccines (there is hope for pent-up demand...consumers could be tapped-out for a while).
 - There are concerns about ending social distancing to soon resulting in a virus relapse...this could result in a W-shaped recovery as the economy falls-back after a false start (*kind of like a bear market rally*).
- We are in uncharted territory with the pandemic and the economy, we can only hope we are doing the right thing in both cases and hope for the best for the future (*you gotta have hope!*)

At the turn...

The Back Nine...

Mr. Clean...the cost of cleaning a business space infected with coronavirus is expensive, but necessary (biohazard remediation work is spiking as the number of COVID-19 cases increase):

- Rates typically range from \$750 to \$1000 for a 3 to 4-person team (ranging from \$1 to \$10 per square foot):
 - The clean-up cost does not include waste disposal, which typically adds 20% to 35% to the total:
 - Disposal firms are typically steam-cleaning the waste and later burying it in landfills (there is less waste than compared to Ebola).
- There is about 71 billion square feet of commercial real estate in the U.S.:
 - The cost of disinfecting businesses could consume most of the government assistance to business:
 - For larger sites, businesses are using video footage to pinpoint where infected workers have been to target clean:
 - Narrowing down the hot zones will save cleaning costs, but many firms will probably need multiple cleanings over time.

End of an Era...coronavirus ends stock market's record ten-and-a-half-year bull run:

- Data format: April 1, 2019 / January 1, 2020 / April 1, 2020:

Equities

Dow: 25928 / 28634 / 21917
S&P 500: 2834 / 3230 / 2584
NASDAQ: 7729 / 8972 / 7700
Russell 2000: 1539 / 1668 / 1153

Commodities

CRB: 183 / 185 / 121
Oil: \$60.14 / \$61.06 / \$20.48
Gold: \$1292 / \$1517 / \$1628
Copper: \$293 / \$283 / \$222
Natural Gas: \$2.66 / \$2.18

Borrowing Benchmarks

Libor:
1mo: 2.494% / 1.762% / .984%
3mo: 2.599% / 1.908% / 1.433%
SOFR: (U.S Secured Overnight Financing Rate)
1day: 2.65% / 1.55% / .01%

Treasuries Issues

3mo: 2.40% / 1.51% / .06%
6mo: 2.44% / 1.60% / .13%
1yr: 2.40% / 1.59% / .14%
2yr: 2.27% / 1.58% / .22%
3yr: 2.21% / 1.62% / .27%
5yr: 2.23% / 1.69% / .36%
7yr: 2.31% / 1.83% / .53%
10yr: 2.41% / 1.92% / .67%
30yr: 2.81% / 2.39% / 1.33%

Currencies

Euro: 1.121 / 1.121 / 1.103
Yen: 110.86 / 108.61 / 107.54
Peso: 19.42 / 18.926 / 23.672
Canadian \$: 1.334 / 1.299 / 1.406
Yuan: 6.712 / 6.963 / 7.082

Grain Futures

Corn: \$3.56 / \$3.87 / \$3.41
Soybeans: \$8.84 / \$9.55 / 8.87
Wheat: \$4.57 / \$5.58 / 5.69

Job / Inflation Indicators

Unemployment: 3.8% / 3.5% / 4.4%
Consumer Price Index: 1.9% / 2.3% / 2.3%
Core PCE Index: 1.5% / 1.6% / 1.8%

Federal Funds Open: 2.40% / 1.56% / .02%

Prime Rate: 5.50% / 4.75% / 3.25%

19th Hole...

It ain't over till it's over.

Yogi Berra

Ross Elford, First Vice President

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