March 18, 2020

Dear Members:

As market unrest from COVID-19 continues, the Federal Reserve has and is continuing to act in an effort to support those most impacted by the numerous shutdowns taking place. We've seen dramatic changes in rates and fiscal policy since our March 6 update, and we want to continue to reassure Corporate One's members we have significant cash and stand ready and willing to lend to any member credit union experiencing strains in liquidity. We are structuring attractive short-term loan specials to help you navigate during these turbulent times and will be making those available later today, March 18. I will continue to provide periodic market updates as things unfold, and we will certainly be discussing the impact of COVID-19 on the markets in our Quarterly Economic Update on March 25. Register to attend this update. In the meantime, do not hesitate to contact me or Corporate One's SVP, Chief Investment Officer, Bob Post if you have any questions regarding your investment or liquidity needs.

March 18: COVID-19 Update

In an unprecedented move on Sunday, March 15, 2020, the Federal Reserve dropped the Fed Funds target rate 100 basis points to a range of 0% to .25% and is repurposing the discount window to support lending to households and businesses. This was an aggressive action taken by the Federal Reserve in an attempt to improve market functioning and provide liquidity to the credit markets. The Fed further stated, "they expect to maintain this target range until it is confident the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

The committee also announced it will increase its holdings of Treasury securities by "at least $500 billion" and its holdings of MBS securities by "at least $200 billion." The main purpose of these purchases is to "support the smooth functioning of markets for Treasury securities and agency mortgage-backed securities that are central to the flow of credit to households and businesses."

In a coordinated effort with other global central banks, it was decided to reduce the cost dollar currency swaps 25-basis points and offer 84-day maturities (i.e., FX swap lines to OIS). The dollar liquidity swaps were put into place in December 2007 in order to ensure an ample supply of global U.S. dollar liquidity.

The Fed is encouraging financial institutions to use their capital and liquidity buffers to keep credit flowing. The committee also reduced the reserve requirements ratio to zero in the hopes the action will help support lending to households and businesses. Today the Fed announced reinstating the Commercial Paper Funding Facility. The short-term unsecured markets were very strained, making it difficult for large corporations to get short-term funding. This move should improve the flow of credit and help provide liquidity to households and businesses. The Fed has not yet implemented the term asset-backed loan facility that also provided liquidity relief during the crisis. This is certainly another tool the Fed could implement if it deems more stimulus is necessary.

This crisis is different than the crisis of 2008-2009, as this is more of a public-health-induced economic crisis and not a financial crisis. Fed Chairman Powell emphasized several times during his conference call that the financial sector remains sound. Furthermore, the Federal Reserve has experience utilizing all of these tools to provide liquidity and stability to the markets, and they are implementing these policies in a quicker method than during the last crisis. These actions by the Federal Reserve should go a long way to help restore proper functioning in the marketplace. The Fed has not only pulled out their “bazooka,” but they have also pulled out their cannon.

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