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CoronaCrash Roadmap III: Quick Bullets

Some quick thoughts…

Powell gets a B

- The core problem is not something the Fed can address
- Kudos for trying the "bazooka."
- Rationalizing QE as intended to improve "functioning of the Treasury market" was dumb and makes the policy seem temporary. An own goal here.
- **QE should be about propping up the nominal economy as a credit-market shock absorber**
- The more permanent, the better - ideally they would ditch IOER (a sterilizing mechanism that allows for rate normalization before QE unwind) and reinforce permanence with strong forward guidance. **Opportunity missed** there.
- I give them a B. Not bad for a kid who was in remedial classes last year.
- The bazooka's been fired. It should be clear **this is not a problem amenable to a monetary fix**.

The **breadth and depth** of the planned disruption is frightening

- Many schools closed until mid-late April
- Indefinite closures of bars & restaurants in many states
- CDC recommendation that all gatherings of 50+ be suspended for **two months**.

The economics of many community businesses are simply **not robust to a two-month shutdown.** This is a **recipe for mass unemployment**.

- Bars, restaurants, skating rinks, locally-owned gyms, dance studios, convenience stores – untold thousands will go bust.

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- The policy objective is to find a way to <u>socialize the impending losses</u> to keep these businesses afloat

- Any sign that Washington is moving towards a viable solution would be <u>THE buy signal</u>

- DC is not even having the right conversations. The House package aimed at <u>helping workers AFTER their employer goes bust is counterproductive</u>.

- The "workers good / business bad" narrative permeating DC is proving extraordinarily costly.

- The Trump Administration has failed in effectively challenging this narrative – a pre-requisite to an effective solution.

<u>Policy Process</u>

- Politico Playbook describes the process like this:

> **HOW TO THINK ABOUT CORONA-STIMULUS 3.0 ...** For reference: Going forward, let's call the emergency $8.3 billion bill that was signed into law on March 6 Phase One of the efforts to address the impact the pandemic is having on the U.S. economy. ... Last week's House bill, which passed Friday night and contains paid sick leave and free testing, we'll call Phase Two. ... And the bill that's just beginning to be discussed in the Senate is Phase Three.

- <u>The markets need to see an effective "Phase Three"</u>

- Mitt Romney is proposing a $1,000 check be sent to every American adult as well as "providing grants from the Small Business Administration to help businesses continue to be able to pay employees or make rent." This is the kind of thing that will comprise "phase three." Ideally, they will move towards more SBA grants and less writing checks to everyone

- My solution: a check to every llc and c-corp for 10% of sales reporting on 2019 tax filings, predicated on paying furloughed workers. If the shutdown lasts more than 6 weeks, do more. Given the rhetoric out of DC, this seems like <u>pie in the sky</u>.

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- Politico reports that McConnell plans to have phase three wrapped up before the Easter Recess on April 3rd. The world's most deliberative body might **deliberate us into a depression**.

Market Strategy

When the markets greet a 100bp rate cut and $700bn in QE by trading limit down, we're all beyond making "market calls." But for what it's worth, here's my current approach, subject to change without notice:

- Having zeroed out equity risk in late January, I started dipping a toe in a couple of names with 8%+ dividend yields on Thursday. I thought them relatively safe. Both stocks are down 10%+ today.

- **The gold / risk correlation flipping to positive is extremely disconcerting**. It tells us that panic liquidity demand may be beyond the capability of central banks to address. Its real people and real businesses desiring to liquidate assets for cash. The solution is a policy plan from Washington that breaks the panic.

- Further volatile **market declines will increase the pressure on DC** policymakers. I intent to add very gradually into further sharp sell-offs. DC in disarray, but they will get there eventually.

- **I'm short EURUSD in smalls**. If the volatile risk-asset selloff continues, we could soon flip a switch in which the market needs Dollars like air. If risk-assets stabilize, EURUSD may not do much of anything. Risk-reward seems favorably skewed.

- I'm **long USDCNH** again. No one is focusing on this right now – despite an AMAZING set of data last night – but **China is well and truly screwed here**. The confluence of a wide domestic shutdown with the sudden evaporation of their export markets is highly likely to generate a discontinuity in China's highly unstable "credit bubble-cum currency peg" equilibrium.

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