

# Historic U.S. policy actions

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U.S. policymakers have announced a fiscal package of more than \$2 trillion, as well as extraordinary Federal Reserve measures to cushion the economic and market impact of the coronavirus shock. The combined actions are unprecedented in their size – and in the degree of coordination between monetary and fiscal authorities. They represent the type of decisive policy response we have been calling for – and set the scene for an eventual economic recovery. The rapid shutdown of the world’s largest economy in an effort to contain the coronavirus spread was threatening to set in motion a vicious circle: disrupted cash flows lead to rising defaults, making it harder for banks to extend credit. This credit crunch, in turn, could accelerate bankruptcies.

The U.S. fiscal stimulus – larger than that delivered in the global financial crisis – includes direct cash payments to households, backstops for small- and medium-size enterprises (SMEs), a historic expansion of unemployment benefits, and large-scale support for corporate credit and market functioning alongside the Fed. Implementation of both health and fiscal measures will be key to ensure they have the desired effect. The Fed’s “whatever-it-takes” actions include a commitment to massively expand its \$4.5 trillion balance sheet, lending programs to directly support SMEs, states and municipalities, and buying U.S. corporate bonds for the first time.

The U.S response follows coordinated fiscal and monetary action in Australia, Canada and the UK, and a patchwork of fiscal stimulus supported by monetary policy in the euro area. Governments disburse funds to provide a financial bridge to households and businesses. Central banks will be called upon so that interest rates don’t rise in an uncontrolled way amid the largest peacetime relief program ever seen. This makes the type of policy coordination we called for last year essential. It entails large-scale asset purchases, including the Fed announcing open-ended buying of U.S. Treasuries and mortgages. Keeping long-term rates in check is critical. Explicit yield curve control is one way to do this, as the Bank of Japan has shown.

Once we better understand the scale and impact of the outbreak, the policy response is paving the road for an eventual – and strong – economic and market rebound. Market moves in recent weeks have been reminiscent of the financial crisis – and have likely thrown many portfolios below their benchmark weights in risk assets. For long-term investors, significant value has been created. We favor rebalancing toward broad asset class benchmark weights to regain an overall neutral stance. Within equities, we prefer the U.S. on the strength of the policy response and the market’s quality characteristics.

## Key views

**A historic U.S. fiscal package to cushion the virus impact represents the decisive policy action we have called for.**

**Crucially, the Fed has already unleashed an array of measures to keep rates low and ensure the proper functioning of markets.**

**The combined actions set the scene for an eventual recovery. We favor rebalancing into risk assets amid the selloff.**

**Bulletin**

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