The Federal reserve (and some G10 central Banks) move to ease financial stress

Confidence must be earned

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What has happened over the weekend?

On Sunday March 15, The Federal Reserve (Fed) announced its decision to cut rates by 100 basis points to near zero. The Fed stated that rates will remain at near-zero levels until the Committee "*is confident that the economy has weathered recent events*".

It also jumpstarted its Quantitative Easing (QE) programme by immediately increasing its holdings of US Treasury securities and Agency Mortgage-Backed securities. The objective being to support the flow of credit to households and businesses.

Importantly, the Fed, along with five other G-10 Central Banks (Europe, Canada, Japan, England, and Switzerland) will offer more attractive terms for USD swap lines, with the aim of preventing disruptions in US Dollar funded markets.

The actions taken by the Fed late last week and this weekend were made in an attempt to address the tightening in financial conditions.

What impact will the announcement have in real terms?

The Fed reduced interest rates by 100 basis points and is going to buy up at least $700 billion in debt securities – made up of at least:

- $500 billion in US government bonds;
- $200 billion in debt securities with mortgages as collateral.

Along with the other major Central Banks, it has also taken measures to ensure an ongoing supply of US Dollars to the banking system.

The interest rate is now at 0% to 0.25%.

Some background:

Less than two weeks ago, Fed chairperson Jerome Powell lowered interest rates by 50 basis points. That was the first interim reduction in interest rates since the financial crisis, over 10 years ago.

At the subsequent press conference, Powell said that the interest the rate reduction and the reboot of the QE programme were mainly intended to encourage the market for US government bonds, the main global financial system market, and the market for mortgage bonds to move again. According to Powell, the developments in those markets are crucial for lending to companies and households and, thus, for the real economy.

What is your current view?

The current situation is being followed up with redoubled attention by our management teams. Overall, we remain true to our current central scenario: a deep but time-bound shock to the economy, which does not lead to a lasting global recession. In terms of management, we remain cautious in the short term because we think that volatility should last. For example, we have significantly reduced equity exposure levels in our main diversified funds. It is currently essential that the portfolios are broadly diversified in terms of geographic areas and asset classes.

In today's environment, and in the face of rising volatility, it is essential for investors to ensure that their management decisions remain well aligned with their investment objectives and time horizon. In times of high uncertainty such as strong variations like those we are going through, it is all the more essential for the saver to keep in line his long-term objectives, to refer to his investment horizon and avoid behavioural biases.

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