MIRABAUD
Asset Management

FLASH NOTE

16 March 2020

FED FIRES AGAIN

STRATEGY TEAM

- In a non-scheduled meeting, the US Federal Reserve decided on Sunday March 15, 2020, a comprehensive policy package.
- This includes a cut in interest rates to zero, a restart of QE, and several liquidity-easing measures.
- In light of these developments, we do not recommend to change our current Tactical Asset Allocation. We remain **prudent on risk assets**, and recommend to **keep hedges on the US dollar**.
- Going forward, it is fiscal policy that needs to be in the driver's seat. The Fed has more policy tools in its toolkit and will use them in the future, though

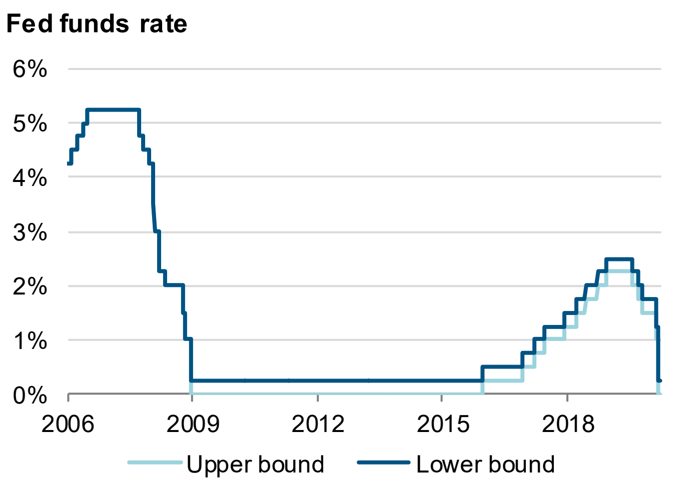
The Decision. The latest Fed decisions concern three main elements. First, the Federal Reserve funds rate was cut a full 100 basis points, to a historic low of 0.00-0.25%. Second, an asset purchase programme was announced ("QE"), with the Fed promising to buy at least USD 500 billion in Treasury securities and at least USD 200 billion in mortgage backed securities. A third element concerns liquidity measures. This includes a cut in the discount rate, while banks' reserve requirement rate was brought down to 0%. In addition, an agreement with foreign central banks—including the Swiss National Bank—of US dollar swap lines at greater volume and at a lower rate, was announced. The latter measure will help banks' funding in US dollars.

Our View. With its decision to act over the weekend, the Fed shows that it reacts to keep financial markets functioning. While we think that lower interest rates per se do not encourage the US consumer to rise spending when facing a health pandemic, the latest decisions show that the Fed is and will remain pro-active in guaranteeing financial market functioning. Overall, we continue to believe that when facing a pandemic, health policy measures are first and foremost needed, while it is fiscal policy that must be in the driver's seat in order to counteract such a shock. We believe more actions will be forthcoming, and the Fed will announce more policy measures from its toolkit.

Market Reaction. Following Sunday's announced measures by the Federal Reserve, financial markets were in very clear risk-off mode. Risk assets slumped on Monday, while safe haven bonds gained markedly. The US dollar depreciated, while European sovereign bonds—especially in Italy—came under some intensified pressure.

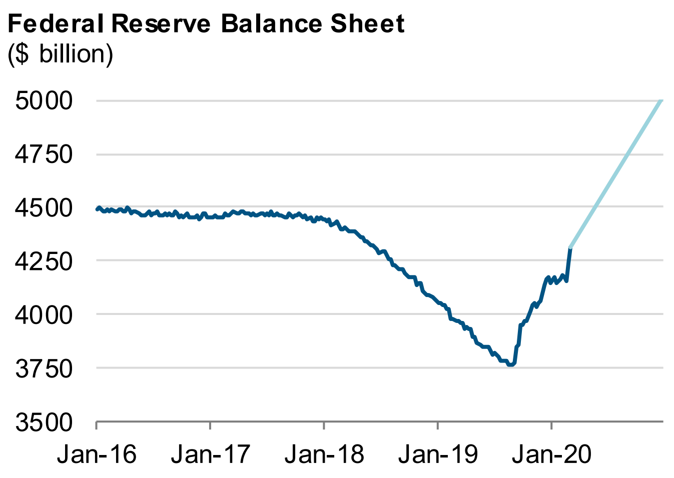
Asset Allocation Implication. We keep our prudent view, with our hedges in equities—namely in the US, the Eurozone, UK, Switzerland and Canada—in place. We also reiterate our negative view on the US dollar—keep the hedges implemented earlier.

MAIN POLICY RATE BACK TO HISTORIC LOW



Sources: Datastream, Mirabaud Asset Management

FED BALANCE SHEET TO RISE AGAIN



Sources: Datastream, Mirabaud Asset Management

Mirabaud Asset Management (Suisse) SA

29, boulevard Georges-Favon CH-1204 Geneva T +41 58 200 60 00 F +41 58 200 60 01
www.mirabaud-am.com

PREPARED FOR NOW