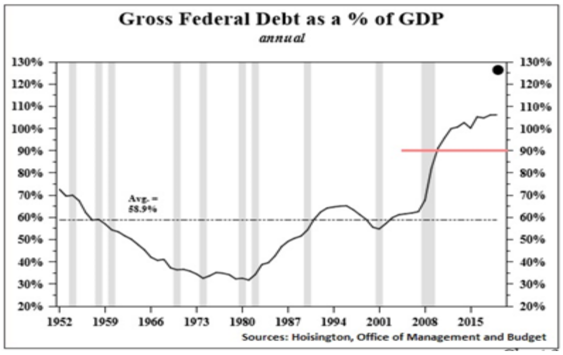
BLOG POST
Analyst Corner
Part 2
5/18/2020

Fixed Income – Buyer of Last Resort

The spike in U.S. Government debt is likely to be the biggest long-term impact of the pandemic crisis. While Congress and the Fed can be commended for how quickly they took action, it remains to be seen if their efforts are worth the long-term pain they may create. The deficit for this fiscal year could approach $2 trillion, an amount unconscionable just months ago as the national debt soars to over $25 trillion. As interest rates plummet, you might question who is going to buy all this debt? While demand does still exist from insurance companies, pension plans, and foreign investors, increasingly it will be the Fed stepping up as the buyer of last resort. Treasury Secretary Mnuchin announced the government was shelving plans to issue 50-year government bonds but will revisit that, along with potential 100-year bonds in the future.



Technical – Just Ask Homer

The COVID-19 pandemic and associated market crash has looked much different than prior crises, like the financial sector implosion in 2008. There has been an eerily similar path of this bear market to what occurred on Black Monday in 1987, although whether this trend continues is open to debate. Black Monday, where the stock market fell 20% in a day, was largely the result of an electronic trading strategy known as Portfolio Insurance that triggered electronic selling that overwhelmed buying. While the initial drop in the market mirrors that crash, the source of this crash is very different. The recovery of the current crisis will largely depend on how quickly an effective therapeutic can be developed that gives people confidence to reengage in the economy. In case you were wondering, the Simpsons (a show I admittedly have never watched) debuted in 1987.