In 1929, the economy worsened because of policy errors - monetary, fiscal, and regulatory. History shows the worst recessions in terms of long-run economic impact are generally the product of persistent economic policy errors. Thankfully, the responses this time around look significantly better than those during the Great Depression. The responses include central bank easing, fiscal stimulus, limited tariff rollbacks as well as regulatory easing. Additionally, policymakers have responded more quickly and in a larger fashion than in 2008.

From a fiscal policy standpoint, Congress enacted the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act with a range of spending, tax relief, and business support for the broader economy. There was also an emergency response package of $8.3 billion to develop vaccines and diagnostics. Additionally, refundable tax credits for two weeks of paid sick leave, emergency grants for unemployment insurance and paid medical leave were introduced. Finally, direct aid for workers and a boost in unemployment checks as well as direct aid for small businesses to maintain payroll, rent, and utilities were made available via the Payroll Protection Plan (PPE) legislation that was passed.

From a monetary policy standpoint, the Federal Reserve lowered the Fed Funds rate by a total of 1.50% at two unscheduled meetings of the Federal Open Market Committee in March, leaving the target range at virtually zero. The Fed has also expanded its balance sheet to over $6 trillion.

The combination of an absence of therapeutics and a vaccine, the structural damage caused by mandating the global economy to a crawl, and the restrictive protocols governing state-by-state re-openings make it difficult to predict the future of the economy. It appears increased testing, social distancing, and shelter-in-place are helping at least on the margin. Of course, we will be closely watching the infection numbers, as more states move toward loosening restrictions.

The labor market and consumer spending are likely to be key drivers in the recovery, but job losses and consumer confidence will take time to rebound. Rail car traffic, hotel occupancy, motor vehicle gas purchases, and air travel are still down substantially from a year ago, but all have also moved off their lows. In addition, retail sales, industrial production, and housing starts are recovering.

Economic damage may be the greatest area of uncertainty, but closed businesses can reopen as the outbreak subsides and laid-off or furloughed workers will be able to return to work. We will most likely have slower growth and lower interest rates than existed pre-pandemic. In addition, we anticipate monetary policy to remain accommodative for some time as the economy works its way back to its prior growth trajectory. We expect stable, high-quality companies with strong balance sheets to be rewarded for their ability to generate cash flows for their shareholders.

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