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MARKET ADVISORS

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This morning the Fed made a very much expected, unexpected cut to the Federal Funds Rate of .50%. We attribute yesterday's massive rally to the consensus this would happen, and today's selloff to the realization that monetary policy is not the solution to the now certain negative impact of the coronavirus on the global economy. To be sure, risk asset values had appreciated in an unsustainable way reaching an all-time-high on February 19th. The Fed cut this morning because it had to listen to the yield curve. Fed funds futures continue to indicate that another cut this month is more likely than not.

Monetary policy is not well-suited to 'supply-side' shocks like the virus - especially in the context of an already weak private sector growth environment. Central banks were in a precarious position even before this exogenous shock. What markets really want now is some sort of aggressive fiscal policy response, but that involves actual work by the executive and legislative branches of government.

Containment of the virus is what markets seek. We don't find the timing of said containment in any way predictable, but we do find it inevitable. Investors who may have missed out on the risk rally of the last fourteen months, may well consider this transitory slowdown as an investment opportunity.

We took advantage of equity market weakness and instituted a rebalance of our portfolios last Thursday, while maintaining our targets for all asset classes.

Herb W. Morgan

**Sr. Managing Director
Chief Investment Officer**

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