Money Talks by Dave Helscher

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A number of new terms have entered our daily lexicon over the past few weeks: virology, epidemiology, and social distancing. A week ago, I couldn't even spell epidemiology. There does not appear to be a word for the current economic situation in the U.S. and a number of other countries. In response to a natural disaster and to inhibit the spread of Covid-19, we have shut down the economy and self-induced a recession. The latest initial jobless claims, almost 3.3 million, set a record and is evidence of the economic impact of recent actions. The U.S. economy is heavily reliant on consumer spending on goods and services. With the shutdown of restaurants, bars, gyms, many offices, large and small businesses have had to furlough, layoff, or terminate employment of a large number of people. It is likely that these numbers will continue to grow in the near term.

Many recessions are due to economic excesses and economies contract in reaction to these events. A voluntary or government ordered contraction of business is without precedent. It is hoped that this contraction will be short in duration, but the timing is an unknown. A virus does not wear a watch, but at the appropriate time, business will re-open, employment will return, and consumer spending will, once again, pick up. This is not to negate the personal financial hardships felt by laid off employees or small business owners.

There are multiple means of addressing this situation. The media is covered with measures to prevent further spread of the virus, primarily social distancing. The healthcare industry and its many heroes have stepped up to provide care, screening and testing for the infection, and development of treatments and vaccines. Two other general actions have been taken by the federal government to ease financial hardship during this time: monetary and fiscal policies.

The Federal Reserve Bank is generally charged with the monetary health of the country. In anticipation of the spread of the virus and financial dislocation, it has dramatically reduced borrowing costs at a macro-economic level, instituted another round of quantitative easing by buying government bonds, expanding the types of privately issued notes and bonds eligible to be purchased, and other steps to increase the liquidity or availability of cash for the financial system. In times of crisis there is a herd mentality to hoard, think of toilet paper at your local grocery store. People, or investors, controlling what they can, whether it be cash on hand or rolls of paper. The need for such behavior is likely not necessary, but we humans take comfort in having satisfied a perceived need. Part of the same behavior is reflected in very low rates on U.S. Treasury securities. Both domestic and foreign investors fled to these as a general flight to safety, inflating the value of the dollar and increasing the demand for, increasing the price, of U.S. government securities. To help abate some of this action, the Fed has made available loans to other central banks in dollars and increased the cash created by selling treasury securities.

The other measure, fiscal policy, is reflected by recent Congressional action, funding a wide variety of relief and funding measures. At this writing, Congress is finalizing a $2.2 trillion spending package to provide a variety of loans and grants to businesses, unemployment benefits or back stopping employment in essential services, and payments to individuals to help meet costs in what is hoped to be a temporary period of under or unemployment.

Financial markets dislike uncertainty. The health effects continue to be uncertain but out of the control of markets. Corporate earnings, the “e” in p/e ratios, cannot be defined due to severe declines in consumer spending. Artificial interest rates, due to central bank crisis intervention, prevent reliable model valuations. These are among the factors contributing to the sharp sell-off in financial markets. When recovery occurs, many of these questions can be answered or provide more reliable calculations.

Investing entails a balance of risks and returns. Some things in life require a similar calculation. Practicing social distancing and following the suggestions of healthcare professionals at the CDC, NIH, WHO, or respective states’ departments of public health can help reduce your risk, with the return being coming out the other side, ready to take on what life has in store for each of us. Be good, and be good to each other.