

HB COVID 19 Late-March Update

Three Critical Responses During A Financial Crisis

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Three Critical Responses During A Financial Crisis

- Monetary Response – *The Fed*
- Fiscal Response – *Congress and White House*
- Portfolio & Financial Plan Actions – *Investors & Advisors*

Monetary Policy - The Federal Reserve's Response

- **What is the problem?**
 - *There is no liquidity in the financial markets which have frozen up, companies can't get debt*
- **What is the Fed's Objective?**
 - *To calm the markets and get them working again so companies can access debt*
- **Impacted Companies?**
 - *Need a bailout:* airlines, hotels, cruise lines
 - *Need a backstop:* companies that need debt to cover expenses and operations until economy open back up

Monetary Policy – What The Fed Has Done So Far

- **March 12** - Announced it would inject up to \$1.5 trillion into the financial system in an effort to calm the market.
- **March 15** - Cut rates to nearly zero and announced a \$700 billion quantitative easing program. The Fed said its purchases would include \$500 billion of Treasurys and \$200 billion of agency-backed mortgage securities. The central bank later said it would also buy municipal bonds.
- **March 17** - Established two facilities to provide short-term funding to big financial firms and to purchase corporate paper from issuers. The facility could total \$1 trillion.
- **March 23** - Made significant adjustments to its earlier quantitative easing announcement, removing limits on its asset purchases. The Fed said it will buy “*in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy.*” The Fed also said that it would add corporate bonds to its asset purchases.

Fiscal Response - What Congress Has Done So Far

March 6 - President Trump signed a \$8 billion emergency measure. It provided funding to authorities already fighting to contain the outbreak and allocated \$3 billion for vaccine research.

March 18 - The second coronavirus-related aid package called for more than 10 times as much funding as the first. The \$100 billion bill included provisions for emergency paid leave for workers at big businesses, expanded unemployment insurance and free testing.

Fiscal Response - What Is In The Current Response Bill

- Direct payments of up to \$1,200 for individuals and \$2,400 for couples, with \$500 added for every child, based on 2019 tax returns for those who filed them and 2018 information, if they have not. There will be phase-out limitations.
- Increase unemployment insurance, adding \$600 per week for up to four months on top of what beneficiaries normally receive from states.
- Create a \$500 billion pool of taxpayer money to make loans, loan guarantees or investments to or in businesses, states and municipalities damaged by the crisis.
- \$25 billion in grants to airlines and \$4 billion to cargo carriers to be used exclusively to pay employee wages, salaries and benefits, and set aside another \$25 billion and \$4 billion, respectively, for loans and loan guarantees.
- Provide \$17 billion in loans and loan guarantees for unspecified “businesses critical to maintaining national security”. Put \$117 billion into hospitals and veterans’ health care.

Fiscal Response - What Is In The Current Response Bill

- Provide \$16 billion for the strategic national stockpile of pharmaceutical and medical supplies.
- Give \$350 billion in loans for small businesses to cover salary, wages and benefits, worth 250% of an employer's monthly payroll, with a maximum loan of \$10 million.
- Include a tax credit for retaining employees, worth up to 50% of wages paid during the crisis, for businesses forced to suspend operations or that have seen gross receipts fall by 50% from the previous year.
- Require group health plans and insurance providers to cover preventive services related to coronavirus without cost sharing.
- Delay payroll tax for employers, requiring half of the deferred tax to be paid by the end of 2021 and the other half by the end of 2022.
- Suspend federal student loan payments through Sept. 30 with no accrual of interest on those loans.

Investor Response - Actions That Investors Can Take

- Stay healthy! Listen to your government and local health officials. Social distancing works. You want to be healthy when the economy and markets recover.
- Focus on the long-term financial plan that has been set up. Volatility is expected in the markets, and although painful, diversified portfolios have historically recovered as the economy improves.
- Rebalance portfolios back to target asset class allocations to take advantage of buying “cheaper” investments.
- Tax loss harvesting across asset classes to potentially lower taxable income.
- Utilize financial planning tools that may be available such as delaying tax filing and payment dates for some entities or extended deadlines for IRAs, Roth IRAs, and HSAs contributions.
- Look for investment opportunities that may become attractive in stocks or credit, or if able to, use private alternatives to access opportunities not available in traditional markets.

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