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HB Perspective on Three Critical Responses to a Financial Crisis

This is Ross Bramwell, a principal in the Investments Department at Homrich Berg. Of course, first, we hope you and your family are safe and well. In our continued effort to communicate through these challenging health and economic crisis, I'll take you through today's commentary as I discuss three critical responses in a financial crisis. As headlines are changing almost daily, this is our current outlook on these topics as of March 26, 2020.

The government responds in two ways that are key to determining the depth and length of a financial crisis – its monetary and fiscal policies. The Fed drives the monetary policy, while it is the job of Congress to handle the fiscal response. The Fed tends to act first as it is a smaller regulatory body and can move quicker. It often takes longer for politics to work themselves out between the House, the Senate, and the White House administration. We'll also cover the investor's response and what we can manage together within your financial plan and investment portfolio.

The Fed is simply trying to help the financial markets, in particular the bond market which has nearly frozen up in the last two weeks. No one is sure how bad the pandemic will be or how long it could last, so investors are scared to buy any bonds, even ones that would normally be seen as safe havens. And many are trying to sell typical safe-haven bonds and there have been no buyers. The Fed, by promising to buy bonds in historic amounts, is trying to get the markets working again.

At this point, there are basically two groups of businesses. The first group is comprised of companies that have been hardest hit from the complete stoppage of travel, such as airlines, hotels, and cruise lines. These industries have seen demand pretty much go to zero. Congress might step in to bailout some of these, but there isn't much that the Fed can do.

The Fed's actions are focused on a second group, companies that should be able to manage but are in danger because the financial markets froze up. Some rely on debt as part of their normal operations but cannot access it now. Many have lost revenue because of the virus, but could survive if they could borrow to cover their expenses for a short period. If those companies begin to go under, there will be additional layoffs which lead to even more business failures. The Fed is trying to limit the damage and prevent that cycle from continuing.

Here is what the Fed has done to date:

- March 12 - the Federal Reserve announced it would inject up to $1.5 trillion into the financial system in an effort to calm the market.
- March 15 - the Fed's first dramatic action, reminiscent of the 2008 financial crisis, came as the Fed 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 - the Fed took bigger steps to keep money flowing in the U.S. economy. It 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 - the Fed 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.

It is the job of Congress to have a fiscal response, which is really a stimulus package to bridge the gap and to limit the economic impact of the virus' spread. The response packages so far have focused on both companies and individuals. One main goal is to currently keep people on the payroll as a way to get the economy moving again once it opens back up. Before this week, Congress signed two response bills.

- March 6 - President Trump signed an $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.

These were really drops in the bucket compared to the third bill that will be signed and is designed to offer relief to individuals, the health care system and even corporate sectors most impacted by the outbreak. It includes:

- 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.
- 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. There are provisions to forgive the loans if the businesses maintain their workforce and related compensation.
- 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.

Now, the third response to a financial crisis is not from the government, but is the individual investor's response. As we've communicated, we would focus on several factors that can help investors manage the volatility that is expected to stay with us for the next few months.

- 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, we believe diversified portfolios will recover 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.

Again, we hope you and your family stay safe and well over the next few weeks. If you have additional questions, please reach out to a member of your service team.