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WEALTH MANAGEMENT

Coronavirus Relief Bill: What Will It Mean for the Economy and Markets?

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In an effort to help stabilize households and businesses amid the COVID-19 pandemic, Congress passed a roughly $2 trillion stimulus intended to aid struggling businesses, boost unemployment benefits and provide direct payments to individuals. President Donald Trump signed the bill into law on Friday, March 27, 2020.

Let's take a look at the main provisions of the package and what impact they may have on the economy and markets.

THE CARES ACT: MAIN PROVISIONS

Financial Assistance to Individuals: Americans will receive a check in the amount of $1,200, for individuals, up to $2,400 for couples and $3,000 for a family of four. The payments will be phased out based on income levels.

Extended Unemployment Insurance Program: Adds $600 per week to normal state benefits for up to four months and provides an extra 13 weeks of benefits. It expands eligibility to freelancers and gig economy workers as well.

Payroll Taxes: The measure allows for employers and self-employed individuals to defer payroll tax, requiring half to be paid by the end of 2021 and the other half by 2022.

Small Business Loans: $350 billion in loans for small businesses impacted by the virus**.** Companies with 500 or fewer employees could tap up to $10 million each in forgivable small business loans to keep paychecks flowing.

Federally Guaranteed Loans: This provision will provide eight weeks of assistance for qualifying employers who maintain payroll. Those who meet requirements would have costs such as utilities, mortgage interest and rent forgiven.

Hospitals and Health Care Funding: $240 billion would be set aside in additional emergency appropriations to fight the virus and shore up safety net programs.

Industry: $500 billion proposal to provide loans to distressed companies, with $50 billion in loans for passenger air carriers. Limitations on executive pay and retirement have been placed on businesses who accept the loans and loan guarantees.

State and Local Funding: $150 billion to address spending shortages related to the coronavirus outbreak.

POTENTIAL IMPACT TO THE ECONOMY

The $2 trillion stimulus package is roughly 10% of U.S. GDP, which is a decent offset to many of the forecasts for second quarter U.S. GDP. Together, the new lending facilities announced by the Fed and the stimulus from the Congressional package could channel up to $6 trillion in temporary financing to consumers and firms over the coming months. This should help to support an eventual recovery once the coronavirus outbreak has been brought under control.

The direct payments to individuals will help households stay solvent for the next few weeks. Having said that, the speed at which individuals receive the checks is of paramount importance and not trivial to household solvency. Many low-margin businesses may never recover from this economic hit as demand dries up. The stimulus will support the economy as it recovers from the sudden stop it experienced, but cannot reverse the downturn in the second quarter.

WHAT IT MAY MEAN FOR THE MARKETS

The fiscal stimulus has certainly provided a tailwind for equities in recent days. U.S. stocks delivered the fastest rally in nine decades, with the S&P 500 surging 18% from Tuesday through Thursday. The S&P 500 gave back some of those gains on Friday, but delivered its best week in 11 years. The index remains 25% off its February high.

Equity markets clearly see this package as a bridge to the eventual expansion. We still expect more volatile days ahead, as economic data comes in with a lag. The next hurdles for the market will be the release of unemployment numbers and earnings reports. We were provided with a quick glimpse into current economic conditions with Thursday's weekly jobless claims, which increased by 3.3 million. While this number exceeded expectations, there are now measures in place to aid the unemployed and to help small business potentially rehire those who lost their jobs.

Although this fiscal package will help with the temporary downturn and provide assistance to those who need it, we believe an eventual economic recovery cannot truly gain traction until the virus is under control. But as history shows us, equity markets often see through to the other side and rebound ahead of the economy. While we can never time a market bottom, we are starting to see some signs of thawing in parts of the fixed income markets, such as a tightening of credit spreads and improved liquidity in the municipal bond market. This suggests a bottoming process may be underway. We continue to encourage investors to remain disciplined to their long-term investment strategy so they can participate fully in the eventual market rebound.