



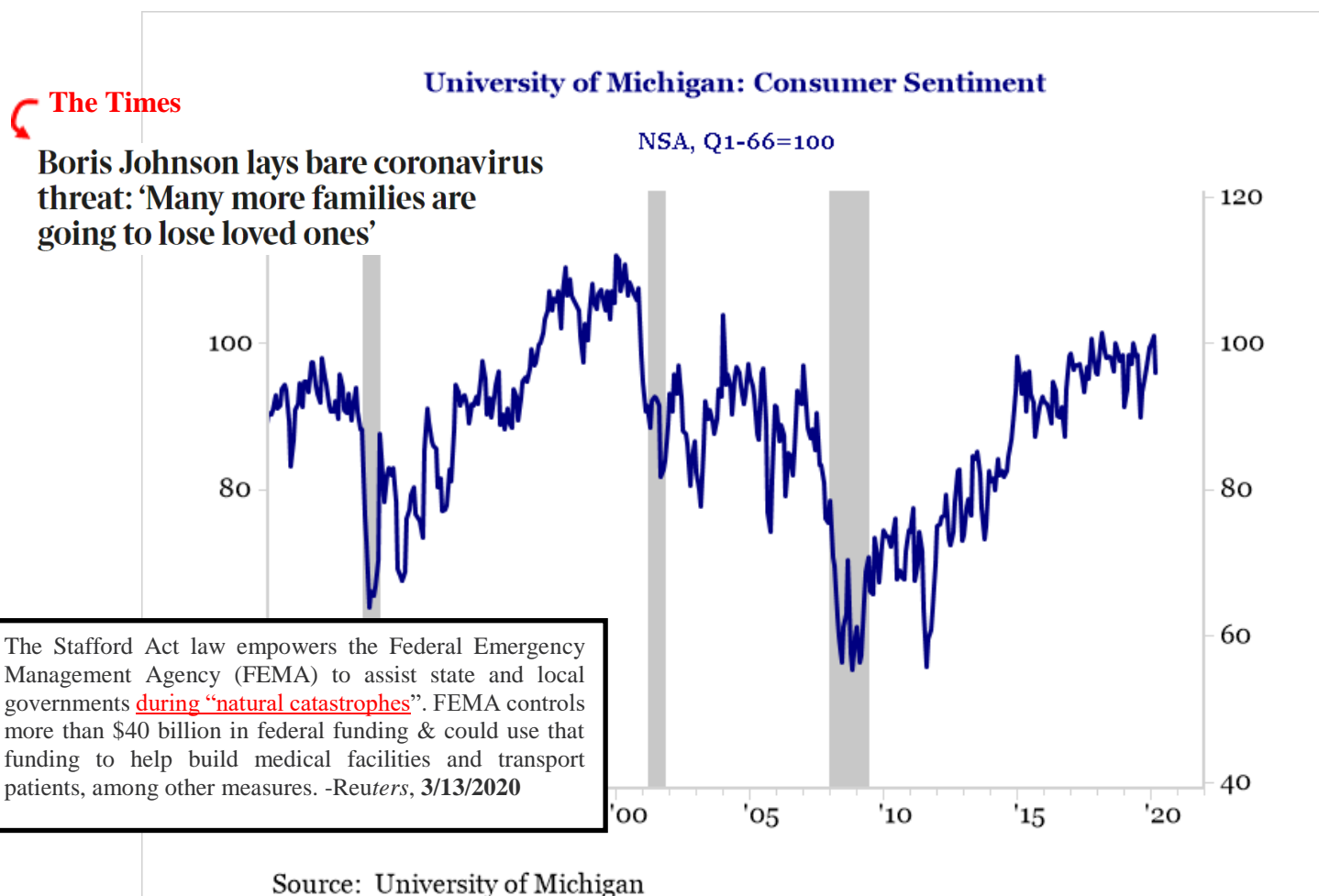
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MARCH SADNESS CONTINUING

- The “cure” for the COVID-19 virus is to shut the economy down, to limit the spread. This strict health policy response (which looks appropriate) should be met with an economic policy response (which is still developing from the Fed, Treasury, and Congress). We still want to see +1% of GDP in stimulus by April.
- The U.S. economic shutdown is still intensifying as public schools close & large gatherings are continuing to be canceled.
- Bottom line: while U.S. consumer confidence has been resilient (eg, the U of Mich survey at 95.9 in early March), we believe there is considerably more downside in coming weeks.



GLOBAL POLICY RESPONSE STILL DEVELOPING (THE 2008 “ALPHABET-SOUP” COULD RESURFACE IN 2020)

 **CNBC**

**Germany Pledges Unlimited Cash as EU
Set to Green Light Spending**

← E.U. triggering
crisis clauses ...

 **CNBC**

**Fed to pump in more than \$1 trillion in
dramatic ramping up of market
intervention amid coronavirus
meltdown**

 **WSJ**

**Federal Reserve Accelerates Treasury Purchases
to Address Market Strains**

Some of the tools that could be adjusted or revived to
support markets if credit conditions worsen significantly:

** Fed's Discount window

** Term Auction Facility (TAF): loans to banks that were
too hesitant to turn to the discount window.

** Commercial paper funding facility (CPFF)

** Central bank liquidity swaps

Reuters, 3/12/2020

MARCH HAS BEEN CANCELED

The Hill

DC, Michigan, Oregon join growing list of school closings amid coronavirus fears

FT

BA boss says airline faces fight for survival

CNBC

Travel industry could lose \$24 billion as coronavirus cripples tourism from outside US

NYT

Broadway, Other New York Arts Events, Canceled Because of Virus

NBC Sports

Adam Silver's letter to NBA fans confirms hiatus to last "at least 30 days"

ESPN

Augusta National announces Masters will be postponed

Dr. Anthony Fauci noted the 2003 SARS epidemic had a mortality rate of 9% to 10%. Since COVID-19 emerged in China two and a half months ago, "it clearly is not as lethal ... but it certainly spreads better," he said, adding seasonal flu has a mortality rate of 0.1%. The WHO's estimated mortality rate for COVID-19 started off at 2%, Fauci said. If you count all the estimated cases of people who may have it but haven't been diagnosed yet, the mortality rate is probably closer to 1%, he said, "which means it's 10 times more lethal than the seasonal flu."

CNBC, 3/11/2020

The attending physician of Congress and the Supreme Court, Brian Monahan, briefed Senate staff on Tuesday afternoon and said that he expects 70 million to 150 million people in the U.S. will contract the coronavirus, two sources tell NBC News.

NBC News, 3/11/2020

1% mortality vs. these estimates ...

GROCERY SHELVES IN PHOENIX



REITERATING U.S. RECESSION BASE CASE

- The “cure” for the COVID-19 global spread has been to shut the economy down. Banks should fill some immediate credit needs, but could tighten lending standards going forward. This will limit the Fed’s ability to stimulate the economy (though they will still likely lower interest rates). National policy measures (eg, fiscal policy) to fill the gap are still developing. Yet, the U.S. economy is continuing to shut down now (eg, public schools closing for an extended period).
- We are putting the **odds of a 2020 U.S. recession at 75%**. 2Q real GDP could fall sharply q/q (we’re using -4% q/q annualized). The loss of energy capex also plays into this calculation with the global oil price war last weekend.
- Sectors of the economy that had been under pressure (eg, mfg) will likely fall further. The U.S. mfg PMI could fall to 40 in the coming months.
- Sectors of the economy that had been improving (eg, housing) are likely to be interrupted by 1) medical calls for “social distancing” and then by 2) job loss.
- The FOMC should cut rates to 0% and offer forward guidance that rates will stay low until unemployment peaks and is clearly coming down. More QE is possible.
- Fiscal policy offered some support, but needs to do more. We believe a package of roughly +1% of GDP by April is necessary.

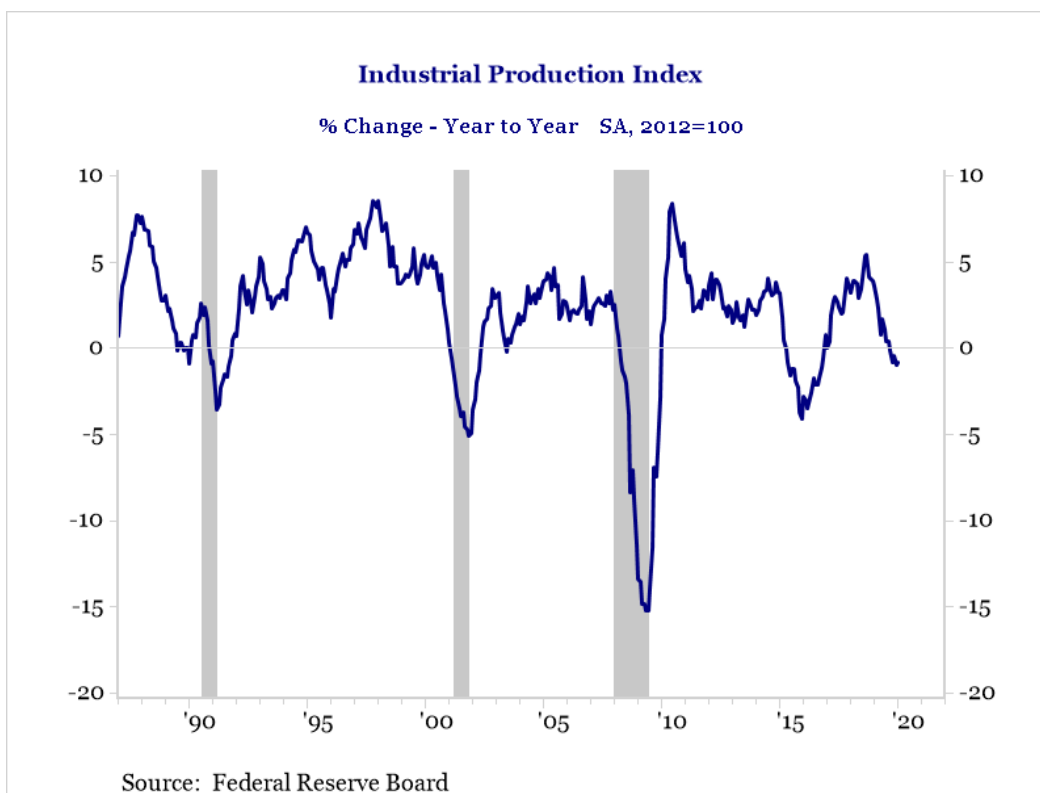
STRATEGAS ECONOMIC FORECASTS

	2018					2019				2020			
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Real GDP Q/Q % AR	3.6%	2.6%	3.5%	2.9%	1.1%	3.1%	2.0%	2.1%	2.1%	0.7%	-4.0%	0.0%	3.2%
Core CPI Q/Q % AR	2.3%	2.6%	2.2%	1.9%	2.0%	2.2%	2.2%	2.8%	2.0%	2.0%	2.3%	1.9%	1.5%
Fed Funds EOP	1.5%	1.8%	2.0%	2.3%	2.5%	2.5%	2.5%	2.0%	1.8%	0.8%	0.3%	0.3%	0.3%

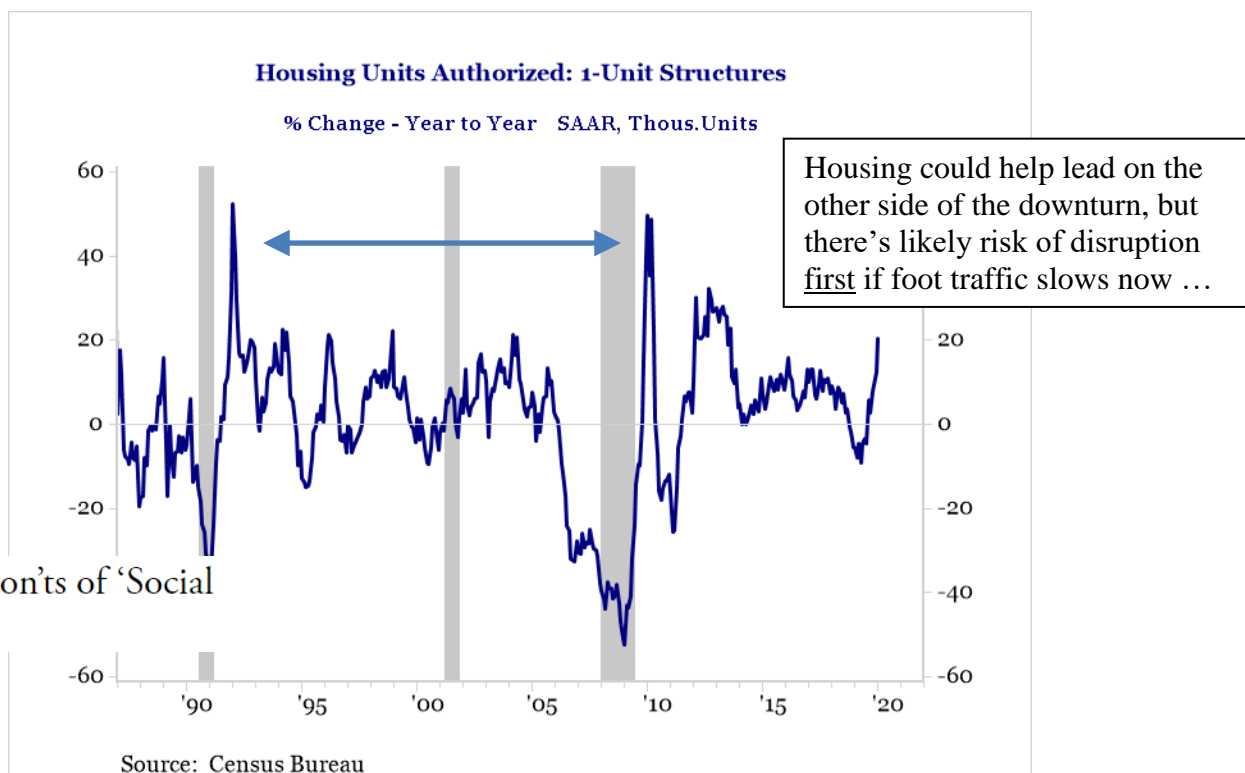
F = Forecast; EOP = End of Period, a = actual

Note: Fed forecast lists top of expected range 2015:4Q forward.

U.S. MFG HAS ADDITIONAL DOWNSIDE ...



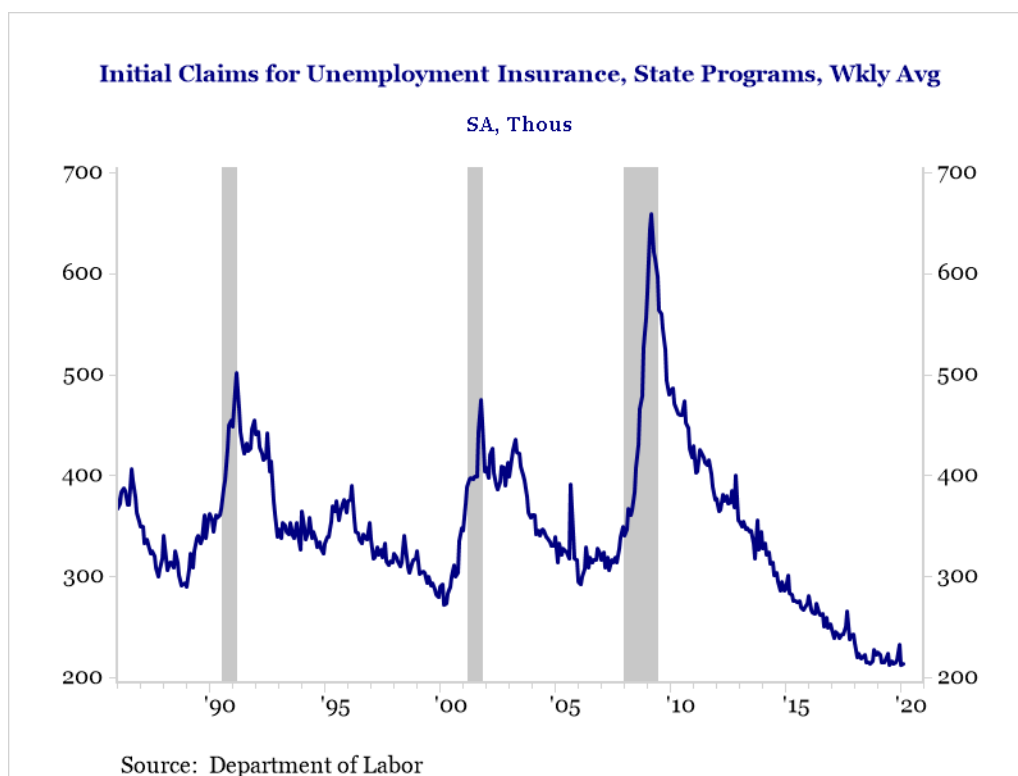
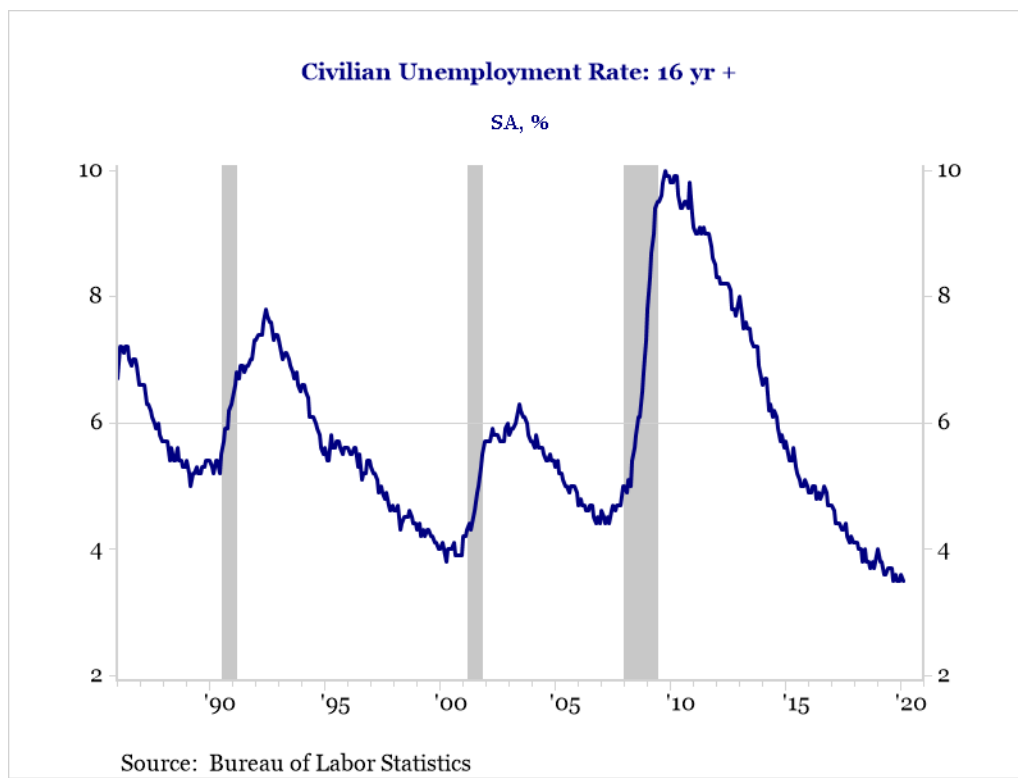
... AND THE U.S. HOUSING BOUNCE COULD PAUSE



The Atlantic

The Dos and Don'ts of 'Social Distancing'

STILL WATCHING FOR U.S. UNEMPLOYMENT TO RISE



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