

Future Money Coronavirus Views

The cavalry is coming! In fiscal terms, at least. US Republican and Democratic leaders have reached a compromise on the keenly awaited congressional stimulus package. Expectations of such a move had been developing over the last couple of weeks and major discussions had been happening over recent days.

Over the weekend, Democrats blocked the deal as there was limited support for the less well-off and no curbs on how big business could use the bailout money. This has now seemingly been rectified, with reports suggesting that bailed-out airlines will be prevented from buying back stock, or paying bonuses to chief executives (which would have seen US tax payers lining the pockets of investors and management, without ensuring the viability of the businesses). It is also believed that the package contains an extra four months of unemployment insurance for those who are made redundant.

The bill does still have to be formerly approved by both houses of congress, but this is expected to be a formality and consequently financial markets rallied very strongly yesterday and today. At \$2tn in size, this package is unprecedented in scale. For reference, in the 2008 global financial crisis, the US congress' equivalent support programme, known as TARP, was \$700bn, and which at the time was considered almost unthinkable large! The full details of the bill are not yet clear, but it is also believed that it will include some element of 'helicopter money', which involves the printing of money for direct cash handouts to individuals and is about as extreme a stimulus policy as you can get.

In the long term this could lead to uncomfortably high levels of inflation (previous cases of hyperinflation have often been caused by government printing presses being used in overdrive), but that is an issue to address on a different day. For now the fear of recession leading to depression is the main question in town for the world's finance officials.

Aside from cash support for the health industry, no amount of financial stimulus is going to turn the tide on the path of the disease, but what it can do is support the foundations of our economies as they are put into hibernation, allowing businesses to still be there and workers ready to go, when public health conditions allow.

Stocks have rallied strongly as this appears to be the stimulus that was demanded, but we do not expect this to be the end of the matter in investment terms. Markets may have priced in the current expected economic disruption coming our way, but there will be many further twists and turns in this crisis and therefore we expect this period of unprecedented volatility to continue.

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