

March 17, 2020

The Fed Goes All-In

Over the past weekend, the Federal Reserve (Fed) lowered short-term interest rates by a full percentage point and announced a restart of bond purchases. Additional rate cuts were expected and while a restart of bond purchases was a possibility, the timing and magnitude of both the rate cuts and bond purchases, \$700 billion, were somewhat of a surprise. The Fed sent a powerful message that it will do what it can, and quickly, to assist the economy and financial markets.

However, the Fed's emergency actions alarmed investors leading to another sharp sell off on Monday – an unintended consequence of their action. Banks that facilitate bond market trading were limiting market making activity due to pressure from companies forced to draw down credit lines in response to stoppages from Covid-19 restrictions. The Fed's actions won't resolve the challenges facing the economy but greatly aids market liquidity and avoids a potential seizing up of corporate bond markets.

It's now up to lawmakers to take the baton from the Fed and pass financial stimulus. Congress is working on financial stimulus of approximately \$500 billion to \$1 trillion but the delay has only added to negative investor sentiment as have steady increases in Covid-19 cases both domestically and in Europe. Additional closures and restrictions announced by states and cities over the weekend, and again on Monday, increase recession risks.

It is important to note, that despite the near-term headlines and challenges ahead, stock market declines already reflect a lot of bad news, including recession. Current valuations, as measured by the price-to-earnings (PE) ratio, reflect some of the most attractive valuations of the past 30-years. Valuations were slightly more attractive at the market bottoms of 2011 and in 2008-2009 but prior to that, you must go back to the 1990 recession to find a similar valuation. In all those instances, bond yields were substantially higher compared to today meaning stock-to-bond valuations, on a relative basis, are far more attractive now.

We believe that bottoming is a process and that sharp, violent selloffs, like the current one, usually take a few weeks to months to resolve. We believe two ingredients, more attractive valuations and aggressive Fed action, are now in place to help the stage for a rebound. However, three other components are missing: a government stimulus package, additional clarity around the impact to the economy and corporate profits, and a slowdown in the growth of new virus cases. While we expect a government aid package in the next one to three weeks, the remaining two are likely to take a few more weeks. In the meantime, markets are likely to remain volatile.

Remember that stock markets historically rebound well of the improvement in fundamental data usually at the first sign of incremental improvement. Trying to time the market is a fruitless exercise and the importance of sticking to an investment plan cannot be stressed enough. Investing is a process. You buy an investment for the cashflows and growth expected over 5 to 10-years, not a single year. While economic growth and corporate earnings are likely to be lower over the coming two quarters, current valuations are appealing for the increase expected over the many subsequent quarters and years after

that. Rebalancing portfolios may be appropriate in some cases and we continue to recommend staying committed to your long-term plans with a diversified investment portfolio.

Please contact a Relationship Manager with any questions or concerns.

Important Information

Trust and fiduciary services are provided by Zions Bancorporation, N.A. through Its Wealth & Fiduciary Services Group. Investments are not Insured by the FDIC or any federal or state government agency, are not deposits of or other obligations of, or guaranteed by, Zions Bancorporation, N.A. or its affiliates, and may be subject to investment risks, including the possible loss of principal value or amount invested. Amegy Bank, California Bank & Trust, The Commerce Bank of Oregon, The Commerce Bank of Washington, National Bank of Arizona, Nevada State Bank, Vectra Bank Colorado, Zions Bank are divisions of Zions Bancorporation, NA.

This information is not meant as a guide to investing, or as a source of specific investment recommendations, and Wealth & Fiduciary Services (WFS) make no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's investment objectives. The information is general in nature and is not intended to be, and should not be construed as, legal or tax advice. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

This document is prepared by LPL Research and WFS. In addition, the information is subject to change and, although based upon information that WFS, considers reliable, is not guaranteed as to accuracy or completeness. WFS makes no warranties with regard to the information or results obtained by its use and disclaims any liability arising out of your use of, or reliance on, the information. The economic forecasts set forth in the presentation may not develop as predicted.

WFS Approval ID # WFS0320-019