



Fed's surprise rate-cut fails to calm US stocks

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The Federal Reserve took emergency action Tuesday and cut interest rates by half a percentage point — the largest cut since the 2008 financial crisis — to help calm financial markets and stabilize the economy amid fears of the spreading coronavirus.

The Fed slashed rates to 1 percent to 1.25 percent from 1.50 to 1.75 percent. But it didn't help the stock market. It rose on the news in early trading, but quickly gave up early gains.

The Dow Jones Industrial Average lost 785.91 points, or 2.94 percent, and closed at 25,917.41. The S&P 500 fell 86.86 points, or 2.81 percent, and closed at 3003.37. The Nasdaq Composite index tumbled 268.07 points, or 2.99 percent, to finish at 8684.89.

On Monday, the Dow rose 1,293.96 points, or 5.09 percent, after the market had lost about 14 percent over seven prior trading days.

"We saw a risk to the outlook of the economy and we chose to act," Jerome Powell, chairman of the Federal Reserve, said at a news conference shortly after announcing the cut. "We don't think we have all the answers, but we do believe our action will provide (support) to the economy."

It decided on the action unanimously after a video conference Monday evening and prior to its scheduled March 17-18 meeting. In 2019, the Federal Open Market Committee cut rates three times by a quarter-point each amid the threat of a worldwide economic slowdown.

In a research note, Standard & Poor's Global said the Fed's action Tuesday will "help cushion the blow" from the coronavirus.

"Though we were anticipating a move at some point, we think the Fed did well by acting decisively and moving soon," S&P said. "Given that monetary policy works with a lag, cutting now will help speed up recovery when the coronavirus concerns have passed. If the rout in the financial market continues, more rate cuts are likely to follow."

The Cato Institute, a libertarian think tank in Washington, said the rate cut was justified and will have a psychological impact on the market.

"Had the Fed not announced a cut, the decision would have amounted to disappointing news, which would have fueled further panic," analyst George Selgin told The Washington Post. "What matters most isn't what the Fed has done today, but what actions it signals for the future."

Manish Shah, publisher of Miami-based 123 Jump Network, an internet provider of stock news, said the Federal Reserve has "limited powers" to deal with a global crisis, but can lessen friction at home.

"Markets were correct in anticipating the cut, and the Fed delivered," he told China Daily. "Now, investors are worried how company earnings will be impacted. The market is still waiting for the next shoe to drop as US cases of coronavirus start piling up. For better or worse, uncertainties linked to the virus will be with us, and the market is slowly coming to that realization. Hence, the volatility."

The Fed hadn't cut rates so sharply since the collapse of the subprime mortgage market 12 years ago, which roiled the market and threatened to ignite a severe economic downturn. Analysts expected the Fed to cut rates at its next regularly scheduled meeting later this month, but a week ago almost no one anticipated Tuesday's action.

"The fundamentals of the US economy are strong," the Fed said in a statement. "However, the coronavirus poses evolving risks to economic activity. In light of these risks and in support of achieving its maximum employment and price stability goals, the Federal Open Market Committee decided (Tuesday) to lower the target range for the federal funds rate by one-half a percentage point."

US President Donald Trump has consistently called for lower rates to remain competitive with nations that have slashed rates even lower. In a tweet Tuesday, Trump demanded more cuts:

"The Federal Reserve is cutting (sic) but must further ease and, most importantly, come into line with other countries/competitors. We are not playing on a level field. Not fair to USA. It is finally time for the Federal Reserve to LEAD. More easing and cutting!"

At the news conference following the Fed's decision to cut rates, Powell said, "We're never going to consider any political considerations whatsoever. And it's very important the public understands that."

Kamal Khan, chief US editor of Investing.com in New York, said the Fed's action "ended up looking more like political theater" than a plan to help the US economy.

"The rate cut doesn't do anything to help supply chains, which Chairman Powell acknowledged at his press conference," Khan told China Daily. "Powell also left the door open for a rate hike if COVID-19 is contained, which probably dismayed a lot of the cheap-money crowd."

The Fed's action on Tuesday appears to be part of a coordinated worldwide effort to stabilize the economy despite disruptions in manufacturing, transportation and finance caused by the coronavirus.