Expect the Fed to do more moves on this pandemic

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The Federal Reserve has been the talk of the town ever since its involvement in the U.S. government. Earlier last week, the Fed not only announced a Main Street lending program but also a slew of measures aimed at boosting parts of the markets and economy.

They announced a barrage of new programs on April 9 focusing on lending out as much as US$2.3 trillion [AU$3.6 trillion] to businesses and governments.

One of its initiatives is to provide support for loans made to small businesses. Another move would be to loan directly to states and municipalities.

Evercore ISI analyst Krishna Guha wrote in a note to clients:

"The Fed has gone both bigger and broader if not cheaper […] Huge implementation tasks lie ahead. Market participants should recognize that it will be weeks – in some cases more than a month – before new programs are up and running."

Despite last week's jobless claims report of over 6.6 million, the Fed is confident that once the coronavirus is contained, the U.S. economy will be back on track.

Powell expects the economic recovery to be 'robust'

Federal Reserve Chairman Jerome Powell spoke during a webinar for the Brookings Institution the same morning that the financing initiative was announced, as he said:

He also points out that the economy's strength has been present before prevention efforts aimed at halting the coronavirus spread put a large share of the U.S. productive capacity offline.

Aside from the strong economic footing, the Fed's current tools are helping to support the recovery. However, while the Fed has worked to provide loans, Congress would have to provide direct cash injections to those areas of the economy that need it.

The Fed also pledges to keep borrowing costs low as the efforts to stabilize the economy and contain the virus continue.

Analysts criticize Fed moves, pressure on debt

While the Fed's efforts are getting mostly applause on Wall Street, some analysts are concerned with the repercussions that these programs will give.

One of the concerned analysts, Chris Rupkey, Chief Financial Economist at MUFG Union Bank, says:

“Free money is what the economy needs now, not a helping-hand loan that needs to be paid back […] Fed officials need to be careful otherwise they may be loading up too much debt on us to weather the economic storm that the country will never be able to pay off and will drag down economic growth for years to come.”

In addition, Cato Institute senior fellow George Selgin notes that banks may have a hard time granting loans on their own since the rules of the programs may be difficult to enforce.

Further interference by the Fed could result in them buying equity ETFs, similar to what the Bank of Japan has been doing.