FED WATCH: MAXIMUM OVERDRIVE

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Well, the Federal Reserve (Fed) delivered a 50 basis points (bps) cut in the Federal Funds Rate yesterday in an inter-meeting move, the first such action since the 2008 financial crisis. This brings the new target range down to 1%–1.25%. The key questions are: Why the emergency move, and will it really move the needle?

First, why? Obviously, the Fed felt the need to act now instead of waiting to see how the economy will respond to a potentially worsening scenario from the COVID-19 virus. The U.S. economy was in solid shape to begin with, a fact the Fed acknowledged as well, so that's the good news. Growth will more than likely take a hit, but in our base case scenario, we still see any potential negative impact as being transitory.

One could certainly make the case that the Fed was reacting to the financial markets. A "market-led Fed" is usually not the preferred course of action for monetary policy. Did the Fed panic? I don't want to be too harsh in my assessment, but sometimes perceptions beat reality. The initial responses seem to underscore the markets' insatiable appetite for more. The verdict will be out on this for a while.

Obviously, rate cuts tend to be growth supportive, but this is not your typical economic scenario. We could argue all day as to whether this development will move the needle, so let's just take this rate cut and put it "in the bank." In other words, it should help financial conditions and the funding markets. And let's not forget the recent plunge in Treasury yields. I don't know how many times I've been asked, "Should I refinance my mortgage?" over the last week.

Is there more to come? The Fed seems to be on a mission, so an additional cut would appear to be on the table, depending how developments play out.

As the guy on the New Jersey boardwalk used to say: Keep your hands and feet inside the vehicle at all times.

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Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Basis point : 1/100th of 1 percent.

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.