RBC Capital Markets, LLC
**Tom Porcelli**
Chief US Economist
(212) 618-7788
tom.porcelli@rbccm.com

**Jacob Oubina**
Senior US Economist
(212) 618-7795
jacob.oubina@rbccm.com

March 16, 2020

# Daily Deck: Trade-off between pain and recovery

Yes the Fed was aggressive last night. But they are not done. Moreover, we maintain, there is a lack of appreciation for some of the fiscal policies that were already floated. This point should not be lost in the noise. Help to the small business community is critical. Overall, we maintain our view that most of the authorities are basically doing the right thing, and once we get beyond the ugly ding to growth that is coming, policies in place should allow for growth to start the process of healing in the second half.

Another major theme evolving over the weekend is that more aggressive social distancing measures have caused many to downgrade 2Q growth expectations sharply. Shutting down schools, limiting crowd sizes, shutting down travel in a big way, closing restaurants, implementing curfews, and more aggressive self-imposed social distancing could indeed exacerbate the near-term pain. **But critically, more aggressive social distancing also means a shorter span between now and when we turn the corner on COVID-19.** In other words, we compress both the pain and the turnaround time into a shorter window. At the extreme, given what we know about the virus, shutting all social contact down for two weeks would eliminate further transmission. **To the degree with which we do social distancing, as that approaches the extreme, so too does the timeframe for when we get a handle on this crisis.**

**The Fed Cannon:** In one of our many phone calls last night we asked someone what is bigger than a bazooka and we were told a cannon. So be it. That is what the Fed used last night. The Fed went all-in in terms of the tools (currently) at its disposal, cutting rates to the lower bound of 0.00/0.25%, dropping the discount window rate by 150bps to 0.25%, ramping up QE to at least $500b in Treasuries and $200b in MBS on net (run-off is over), and providing significant support via large repo operations and FX swap lines. That's all great. Fortunately, the banking system is healthy and well capitalized and should provide a good conduit with which to deal with the cash crunch. **But the Fed is not done.** As we said last week, the additional asset purchases the Fed promised last week was surely going to be upsized and we will say that again today. Moreover, while the Fed's section 13(3) authority (what was used to help the JPM/Bear acquisition and the authority under which they created many of the "alphabet soup" of programs) has been altered in a post Dodd-Frank world, if liquidity in various markets remains an issue, we will see a resurrection here.

We also want to make sure a point is not lost: **the Fed is providing support above and beyond a multi-week window. These policies are likely to remain in place through the foreseeable future.** Indeed, even if we get a significant ebb in the virus towards the end of 2Q, policy will remain very easy for a long time. The risk of a second wave of COVID-19 starting in the fall flu season will be top of mind even if the virus quiets down in the summer. Thus, even with a substantial rebound in economic activity in 3Q and early 4Q, the Fed will be hard-pressed to "take back" any of the policy easing initiatives. Expect zero rates and ongoing QE until after 2Q21 at the earliest as this is when we will have some certainty on the prospects of a second wave of COVID-19.

**A $50b SBA emergency lending facility:** Last week we highlighted that we were impressed by the SBA loan announcement. Here is some additional context. All nonfarm proprietors'


Disseminated: March 16, 2020 14:36ET; Produced: March 16, 2020 14:36ET

income in the United States is about $1.7 trillion annualized. **Thus, the SBA facility can theoretically cover a 20% loss in business over a 2-month span. This would be unprecedented in the post-war era.** The largest 3-month point-to-point drop in this space since the 1960s was a near-8% decline in 1981 (on the back of heavy contractionary policy by the inflation fighting Fed). This space was down a bit more than 14% peak-to-trough during the financial crisis.

**Postponing April 15th tax deadline:** The pushback on this is that the April 15th deadline is only relevant if you owe taxes and thus most wage earners will not benefit from this provision. Yes that is true, **but this is not about individuals. It is entirely about small businesses. It would act as a "bridge loan" to many small and medium sized companies.** Many of these firms file taxes as "individual" returns. Note that non-withheld tax receipts to the Treasury totaled about $200 billion in April of last year. If we are indeed contending with a multi-month shock, postponing tax payment until mid-June (as has been proposed on a bi-partisan way) could provide ample relief here.

**Short-term unemployment:** Dealing with the cash crunch can help stave off a significant jump in short-term unemployment. Recall that ahead of the virus emerging, the US labor market was extremely tight with more than 1 opening per officially unemployed person. If the baseline view is that this is a storm that needs to be weathered for about 8 weeks or so then the impetus to lay off workers should be lessened – especially if firms have the cash flow/liquidity to get through the crunch. Anything more significant in terms of timing/evolution of the crisis would bring about a more protracted unemployment environment and likely strain state budgets that provide unemployment insurance for about 26 weeks.

**Economy is not "hibernating":** One area of clarity in coming weeks and well before we have any good information on the evolution of the virus is just how businesses will adapt to this new reality. We know the travel industry is in dire straits because of social separation, but there have been plenty of reports that bailouts are in the works in DC for this sector. Other heavily impacted industries, like restaurants, are already coming up with innovative ways to keep some business going. In the wake of the "hunkering down" many restaurants have begun to offer curbside pickup and many restaurant delivery services are offering "no contact" drop-off. For other spending in general, it seems (given increased delivery timelines) that online retail has never been busier. **We think while there is a heavy impetus to write off those areas of the economy that are heavily impacted by social separation, there is little credence given to the potential offsets via increased spending in "stay-at-home" goods and services. The situation naturally leads to one of growing pessimism and "worst-case-scenarios" as becoming the base case. But perhaps we are underestimating the ability of companies to adapt.**

# Required disclosures

## Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to
https://www.rbccm.com/global/file-414164.pdf
or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.
For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: https://rbcnew.bluematrix.com/sellside/MAR.action
The 12 month history of SPARCs can be viewed at https://www.rbcinsightresearch.com.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Third-party-disclaimers

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general

circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/ or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC Capital Markets in each instance.

**Additional information is available on request.**

**To U.S. Residents:**
This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**
This publication has been approved by RBC Dominion Securities Inc.(member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**
This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To German Residents:**
This material is distributed in Germany by RBC Europe Limited, Frankfurt Branch which is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

**To Persons Receiving This Advice in Australia:**
This material has been distributed in Australia by Royal Bank of Canada, Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**
This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission (SFC) in Hong Kong, RBC Investment Services (Asia) Limited and RBC Global Asset Management (Asia) Limited, both entities are regulated by the SFC. This material is not for general distribution in Hong Kong to persons who are not professional investors (as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made thereunder.

**To Singapore Residents:**
This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**
Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association (JSDA) and the Financial Futures Association of Japan (FFAJ).

**® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.**
**Copyright © RBC Capital Markets, LLC 2020 - Member SIPC**
**Copyright © RBC Dominion Securities Inc. 2020 - Member Canadian Investor Protection Fund**
**Copyright © RBC Europe Limited 2020**
**Copyright © Royal Bank of Canada 2020**
**All rights reserved**

# Global Macro, Economics & Rates Strategy Research Team

## Europe

### RBC Europe Limited:


| | | | |
|---|---|---|---|
| Vatsala Datta | UK Rates Strategist | +44 20 7029 0184 | vatsala.datta@rbccm.com |
| Cathal Kennedy | European Economist | +44 20 7029 0133 | cathal.kennedy@rbccm.com |
| Megum Muhic | Associate | +44 20 7029 0092 | megum.muhic@rbccm.com |
| Peter Schaffrik | Global Macro Strategist | +44 20 7029 7076 | peter.schaffrik@rbccm.com |
| Gordon Scott | Associate | +44 20 7653 4576 | gordon.scott@rbccm.com |


## Asia-Pacific

### Royal Bank of Canada – Sydney Branch:


| | | | |
|---|---|---|---|
| Su-Lin Ong | Head of Australian and New Zealand FIC Strategy | +612-9033-3088 | su-lin.ong@rbccm.com |
| Robert Thompson | Macro Rates Strategist | +612 9033 3088 | robert.thompson@rbccm.com |


## North America

### RBC Dominion Securities Inc.:


| | | | |
|---|---|---|---|
| Mark Chandler | Head of Canadian Rates Strategy | (416) 842-6388 | mark.chandler@rbccm.com |
| Simon Deeley | Rates Strategist | (416) 842-6362 | simon.deeley@rbccm.com |


### RBC Capital Markets, LLC:


| | | | |
|---|---|---|---|
| Jacob Oubina | Senior US Economist | (212) 618-7795 | jacob.oubina@rbccm.com |
| Tom Porcelli | Chief US Economist | (212) 618-7788 | tom.porcelli@rbccm.com |


# Global Commodity Strategy and MENA Research Team

## North America

### RBC Capital Markets, LLC:


| | | | |
|---|---|---|---|
| Helima Croft | Head of Global Commodity Strategy and MENA Research | (212) 618-7798 | helima.croft@rbccm.com |
| Christopher Louney | Commodity Strategist | (212) 437-1925 | christopher.louney@rbccm.com |
| Michael Tran | Commodity Strategist | (212) 266-4020 | michael.tran@rbccm.com |
| Megan Schippmann | Senior Associate | (212) 301-1531 | megan.schippmann@rbccm.com |