

# Sizable policy action takes shape

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Global markets have taken fright at the scale of potential economic damage wrought by the coronavirus containment measures. We see the economy coming to a near standstill – but expect activity to ultimately return with limited permanent economic damage as long as authorities deliver an overwhelming fiscal and monetary policy response to bridge businesses and households through the shock. That is starting to happen. The pledged policy response has been swift – and we expect total fiscal stimulus to be similar in size to that of the financial crisis but in a shorter timeframe. We believe market volatility is distracting from the sheer amount of promised stimulus – with more to come.

The numbers are changing day by day, reflecting real-time updates of the potential depth of the economic hit. U.S. officials went from talk of minimal stimulus to more than \$1 trillion –or about 5% of GDP. The plan calls for measures we had advocated: “going direct,” or relieving the cash flow pressures facing households and businesses – especially smaller firms –with money handouts. The European Union has pledged 1% of GDP, with individual countries signaling larger amounts and financial guarantees ranging from 10% of GDP to unlimited liquidity support. Fiscal policy is the frontline of policy action and should focus on boosting public health measures and alleviating potential cash flow crunches through liquidity bridges. The UK, Canada and Australia have served as models for coordination between fiscal and monetary policy.

For central banks, the critical focus is alleviating the dysfunction of market pricing and tightening of financial conditions. The Federal Reserve has unleashed an array of liquidity and new facilities to unclog the pipes of the financial system. The European Central Bank put together a bolder response after its communication mishap last week, launching a €750 billion bond buying programme. European officials may also activate the European Stability Mechanism on relaxed terms to free up even more bond-buying capacity.

Markets, in our view, will ultimately settle down if three conditions are met: 1) visibility on the ultimate scale of the coronavirus outbreak and evidence the infection rate as peaked over the long term; 2) deployment of credible and coordinated policy packages; and 3) confidence that financial markets are functioning properly. Once we better understand the scale and impact of the outbreak, the policy response is setting the stage for an eventual – and strong – recovery. This is why we stay neutral on risk assets and believe investors should take a long-term perspective. We emphasize portfolio resilience through a benchmark allocation to government bonds, quality equities, cash and sustainable investing. For long-term investors, we see significant value being created in risk assets.

## Key views

**Sizable fiscal stimulus to bridge the economic impact of the coronavirus is on the way – and under-appreciated by markets**

**Central banks are preventing the financial system’s plumbing from getting clogged – and stand ready to do more**

**We believe investors should take a long-term perspective and maintain benchmark exposure to risk assets**

**Bulletin**

**March 2020**

**BlackRock  
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