The fixed income markets have returned to a more normal state following the dislocations seen in March and April as the economic and societal impacts of COVID-19 became clearer. Equity markets have also bounced off their lows as investors reassess the earnings implications of the shutdown.

Much of the calm currently seen in the markets can be credited to the rapid and forceful steps taken by the Federal Reserve (the “Fed”) and other central banks around the globe. The unprecedented growth in the Fed’s balance sheet, as it works with the Treasury to implement programs to provide liquidity, is a lynchpin in attempting to mitigate the effects of the shutdown. The Fed has also made it clear that it stands ready to take further steps as new issues arise consistently with an expansive analysis of its legal authority.

Despite the efforts of the Fed, the Congress, and President to design programs to help, the reality is that the economic news will be very grim for some time to come. The damage done to household and small business, corporate and government balance sheets will take years to recover. We believe unemployment will probably skyrocket to levels that have not been seen since the Depression. And the high debt levels taken on by corporate and government borrowers prior to the crisis will likely come back to haunt and lead to significant debt restructurings.

With overnight interest rates possibly on hold for the next several years, the Fed's focus will shift to other monetary tools. Investors will be focused on those programs as well as dealing with an historic level of Treasury debt issuance and monitoring private sector responses to the crisis.