MARKET *News Flash*

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Amerian Portfolios (AP) Chief Investment Officer Cliff T. Walsh, CFA®, brings you this AP Market News Flash offering breaking commentary on recent market conditions.

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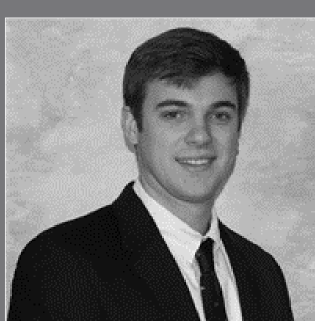

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On Sunday evening, the U.S. Federal Reserve

(the Fed) cut interest rates to zero (a range of 0 to 25 bps), announced $700 billion of quantitative easing (QE), reduced reserve requirements to zero and expanded dollar swap lines with the global banking community to ensure dollar liquidity. While the Fed can increase the size of QE, it basically pulled all the levers at its disposal at the same time. Exacerbating the issue is that the first look at Chinese economic data for February was well below expectations, giving U.S. market participants an inkling of what to expect for the remainder of Q1 and, potentially, the whole of Q2.

We were a touch surprised by the timing of the Fed's move on Sunday night, having already lowered interest rates in an emergency meeting held prior to this week's regularly-scheduled meeting. So far, the market's reaction has not been kind, with the urgency of the moves perhaps signaling more disfunction in the banking system than many market participants believed. Chairman Jerome Powell also indicated that the Fed would not be putting out updated economic forecasts, which is also most likely causing unease among the investing community.

We think the Fed moves will prove to be mixed in their application. Lower short-term interest rates at the front end of the curve will likely prove insufficient in boosting economic activity, as the Fed can't fight the type of fear the general public is currently experiencing. At the start of this crisis, the U.S. economy was not under pressure from a high level of interest rates, so reducing rates will provide little boost, in our view. Not to mention, if people are afraid for their own or others' lives, cheaper money is not going to incentivize them to go out into the world and spend.

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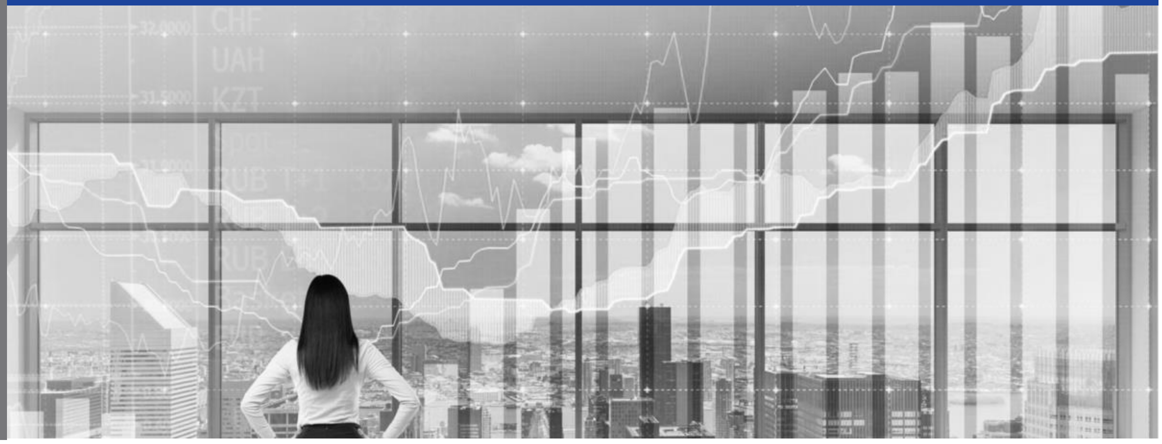

It is the Fed’s other actions that we believe will have more success. Fed bond purchases at the long end of the curve should drive long-term interest rates lower, allowing consumers to refinance mortgages, and increasing discretionary income and potential spending when fear subsides and the public returns to normal life. The Fed actions that we believe to have the most impact are those that ensure the proper functioning of the short-term/overnight and dollar funding markets, which are seemingly much needed. These were two areas during the Great Financial Crisis that caused the most pain and panic.

There is no doubt that we are in the midst of a global recession. Despite the Fed’s action, the economic destruction will be swift and severe, with the GDP contraction perhaps even surpassing the depths of the Great Financial Crisis. We expect, however, that the recovery could occur faster, although that remains to be seen. The length of the current crisis will make all the difference, in our view, which will determine how much cash-flow pressure businesses will face and how much of a domino effect the weakest companies will have on the system.

In closing, the Fed pulled what levers it could, but we feel that some were not the right levers for this crisis. Fiscal stimulus and industry bailouts are likely to have more of an impact, agree with them or not, but the likelihood and extent of such stimulus remains to be seen. In the meantime, the fear felt by the public and in the financial market will manifest in real economic destruction. Our major concern at this point is that this fear and uncertainty will persist longer than businesses can remain solvent, thus generating a severe bear market in equities and high yield bonds. There is no precedent for what we are currently facing. We can take lessons learned from 2008 and other periods of uncertainty, but whole countries have never been shut down before. We can only take it day by day and stay disciplined to our process. We will continue to share our thoughts as things progress.