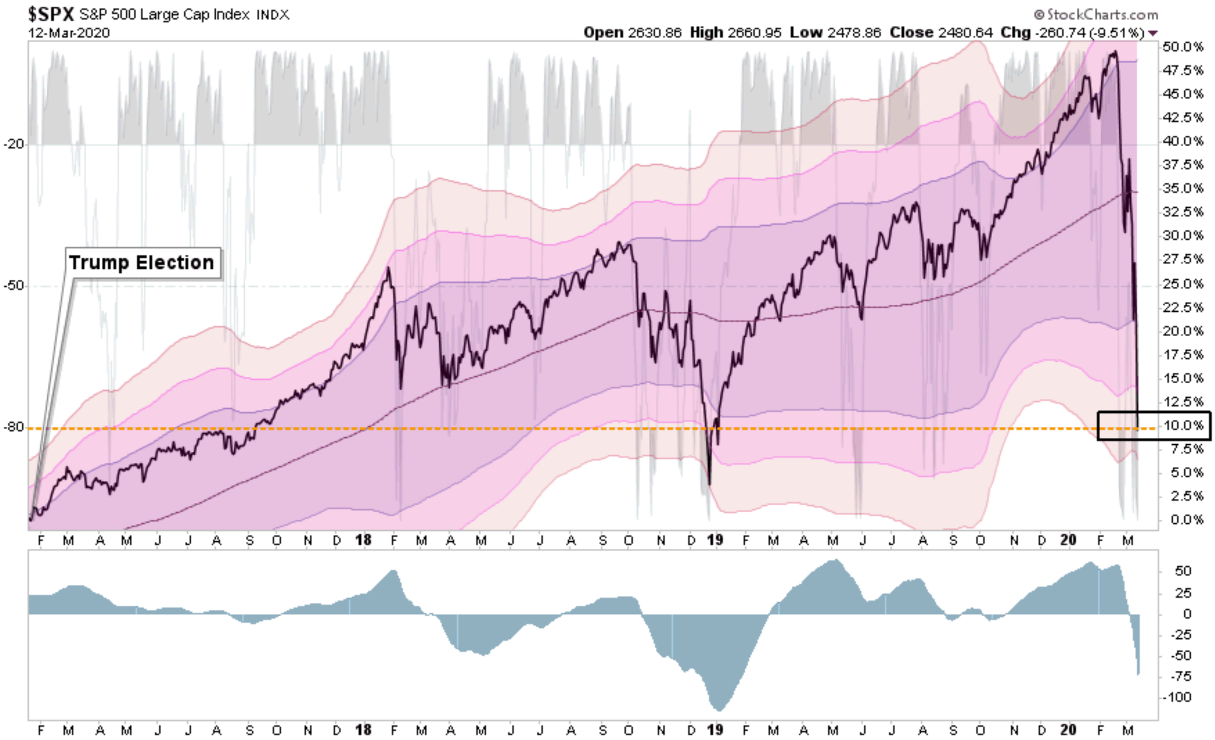
Special Report: Fed Launches A Bazooka As Markets Hit Our Line In The Sand

The severity of the recent market rout has been quite astonishing. As shown below, in just three very short weeks, the market has reversed almost the entirety of the *"Trump Stock Market"* gains.



The decline has been unrelenting, and despite the Fed cutting rates last week, and President Trump discussing fiscal stimulus, the markets haven't responded. In mid-February we were discussing the markets being 3-standard deviations above their 200-dma which is a rarity. **Three short weeks later, the markets are now 4-standard deviations below which is even a rarer event.**

On Wednesday, the Federal Reserve increased *"Repo operations"* to $175 Billion.

Still no response from the market.

Then on Thursday, the Fed brought out their *"big gun."*

The Fed Bazooka

Yesterday, the Federal Reserve stepped into financial markets for the second day in a row, this time dramatically ramping up asset purchases amid the turmoil created by the combination of the spreading coronavirus and the collapse in oil prices.

In a statement from the New York Fed:

The Federal Reserve said it would inject more than $1.5 trillion of temporary liquidity into Wall Street ***on Thursday and Friday to prevent ominous trading conditions from creating a sharper economic contraction.***

'These changes are being made to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak.'

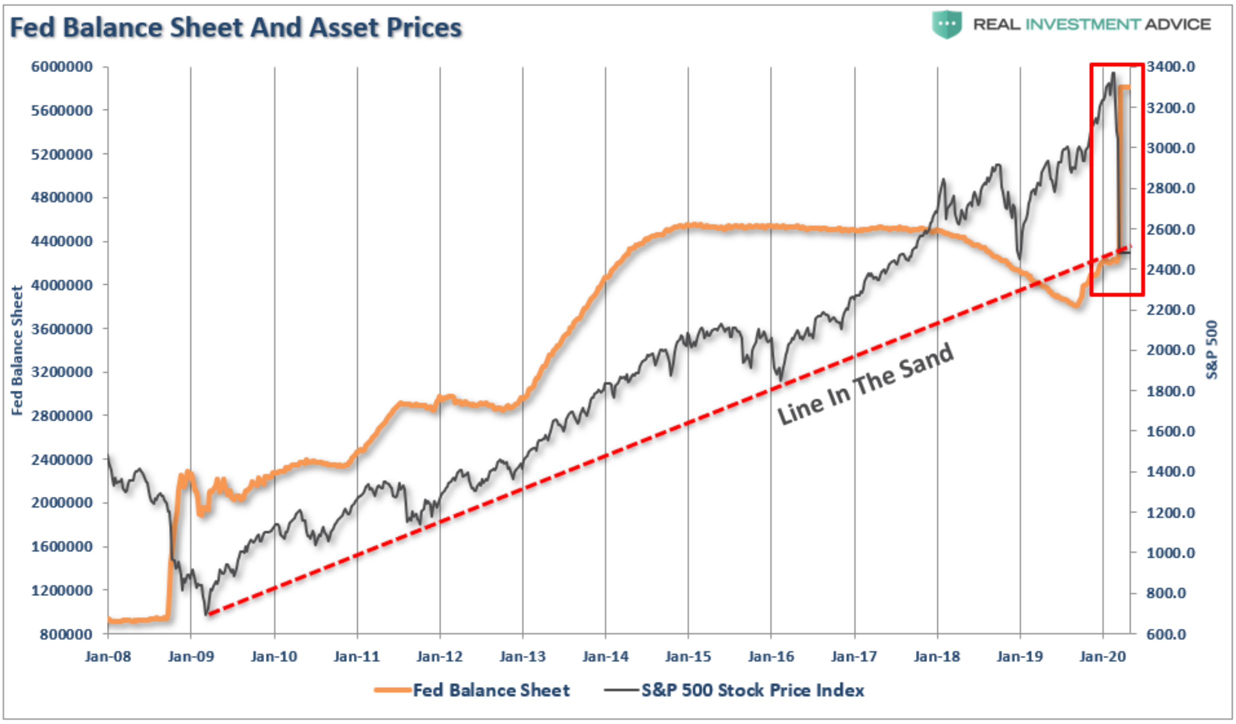
The New York Fed said it would conduct three additional repo offerings worth an additional $1.5 trillion this week, with two separate $500 billion offerings that will last for three months and a third that will mature in one month.

***If the transactions are fully subscribed, they would swell the central bank?s $4.2 trillion asset portfolio by more than 35%.**" - [WSJ]*

As [Mish Shedlock noted],

"The Fed can label this however they want, but it's another round of QE."

As you can see in the chart below, this is a massive surge of liquidity hitting the market at a time the market is hitting important long-term trend support.



Of course, this is what the market has been hoping for:

- *Rate cuts? Check*
- *Liquidity? Check*

It is now, or never, for the markets.

With our portfolios already at very reduced equity levels, the break of this trendline will take our portfolios to our lowest levels of exposure. However, given the extreme oversold condition, noted above, it is likely we are going to see a bounce, which we will use to reduce risk into.

What happened today was an event we have been worried about, but didn't expect to see until after a break of the trendline - *"margin calls."*

This is why we saw outsized selling in *"safe assets"* such as REITs, utilities, bonds, and gold.

Cash was the only safe place to hide.

This also explains why the market *"failed to rally"* when the Fed announced $500 billion today. There is another $500 billion coming tomorrow. We will see what happens.

We aren't anxious to *"fight the Fed,"* but the markets may have a different view this time.

Use rallies to raise cash, and rebalance portfolio risk accordingly.

We are looking to be heavy buyers of equities when the market forms a bottom, we just aren't there as of yet.