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## COVID-19 ECONOMIC STIMULUS PACKAGE

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**Congress has passed the Coronavirus, Aid, Relief and Economic Security (CARES) Act, the largest, fiscally based economic stimulus package ever.** Totaling \$2.2 trillion, or about 10% of aggregate U.S. gross domestic product, this legislation covers numerous areas of great urgency to everyday people, municipalities, small businesses, and major corporations, all of which are now fighting a common enemy in COVID-19.

Here is a look at the most important components of the stimulus package and what its implementation will mean for a potential economic and market recovery.

**Perhaps most importantly, the CARES Act provides for \$350 billion in direct loans and grants to small businesses.** This is a vital provision as small businesses employ approximately half of the national payroll. A key attribute to this component of the package is the Paycheck Protection Program, which allows for ultimate forgiveness of these loans if companies do not lay off employees during the term of their indebtedness.

**Another vital provision is \$500 billion allocated for direct loans, guarantees, and other assistance to large- and mid-sized business.** Recipients here will range from medium-size companies (500-10,000 employees) to major corporations that have incurred or are expected to incur financial losses due to COVID-19 impacts. This provision is also of great importance as it allows government assistance for specific industries in dire need, such as the airlines, and allows the Treasury Department to provide major funding into credit facilities created by the Federal Reserve to support businesses, states, and municipalities.

**Also of significance is \$150 billion of direct assistance designated to states and local municipalities.** This is an important feature of the stimulus package because it will not only improve the financial conditions of state and local economies but should also enhance credit quality within the municipal bond market. This provision comes in addition to the announcement last week that the Fed will begin buying municipal bonds as part of its open-ended asset purchase program.

**In addressing the front lines of the crisis, the legislation also provides \$100 billion directly to hospitals and other healthcare providers.** This funding has been designated to such providers and facilities to compensate "for healthcare-related expenses and lost revenues attributable to coronavirus." This will also be extremely helpful in providing for COVID-19 testing, diagnosis, and treatment.



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**Individuals and families will receive direct cash payments from the government providing short-term financial relief on a national basis.** Individuals with annual incomes of \$75,000 or below will receive \$1,200 (\$2,400 for couples earning less than \$150,000) with an additional payment of \$500 per child. This will help those cash strapped by recent job losses or income reductions to better weather the downturn. These payments could also potentially generate incremental economic activity.

**Additional unemployment benefits will also provide much needed relief for displaced workers.** Those losing employment due to the COVID-19 crisis will receive \$600 per week in addition to any existing benefits. This will also prove crucial to individuals and families during the months ahead. Taking these highlights of the CARES Act stimulus package into account, we believe the following points are also extremely important to recognize:

**For the economy to successfully emerge from the depths it appears to be facing in 2Q, we will need to see a real turn in the medical data currently driving the COVID-19 spread.** While the CARES Act and recently announced monetary stimulus by the Fed could prove critical in terms of magnitude and timing, a recovery is unlikely to occur without real victories against the virus itself.

**That said, this stimulus package is likely to play a vital role on two fronts — as a bridge and a tailwind.** Simply put, this stimulus package has two broad objectives: to get the nation through the worst of the COVID-19 crisis in the immediate months ahead, and then provide a tailwind for a future recovery.

**The CARES Act is likely not the last we will see in regard to COVID-19 fiscal stimulus.** As the crux of this legislation becomes implemented and virus numbers continue to escalate, look for a potential follow up economic stimulus to be crafted perhaps in the late summer or autumn months.

**Remember, the stock market is the great discounter of future events.** At the point a recovery appears in place, be it in three months, six months, or further out, the market will probably react quickly, similar to how it did in March of 2009 while near the low point of the financial crisis and Great Recession.



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Tom oversees investment and mutual fund development and the sub-adviser selection process. He heads Transamerica's investment thought leadership with advisors, clients, and media. Tom has more than 25 years of investment experience and has managed large mutual funds and sub-advised separate account portfolios. Tom holds a Bachelor's degree in political science from Tulane University and an MBA in finance from the Wharton School at the University of Pennsylvania.



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