After its emergency rate cut, investors wonder what the Fed knows

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Investors and President Trump want the same thing after Tuesday's surprise 50 basis point cut by the Fed: more cuts.

The state of play: The announcement, two weeks to the day before the beginning of the central bank's scheduled March 17–18 policy meeting, has investors scratching their heads. "The Fed pulled the fire alarm without telling anybody why," **Bernard Baumohl, chief global economist at the Economic Outlook Group,** tells Axios.

- "There is something else going on here that triggered this cut and everybody is struggling to understand what the Fed saw," he added.
- The Fed's rate cut announcement at 10 a.m. and chair Jerome Powell's 11 a.m. press conference seemed choreographed to soothe the market but instead created more uncertainty.
- In response to yesterday's announcement, the president tweeted and Fed fund futures contracts began pricing in what would be crisis-level spending from the Fed.

Between the lines: Baumohl posits that it could be what the Fed's contacts at various U.S. businesses have reported about the impact of the coronavirus on demand, or an advanced copy of Friday's jobs report that shows a particularly weak number.

The intrigue: Fed fund futures prices show traders now see an additional rate cut at March's meeting and another priced in for April, with that month's contract suggesting the Fed could cut rates by an additional 50 basis points, Ben Jeffery, interest rate strategist at BMO Capital Markets, tells Axios.

"It’s remarkable," Jeffery says. "The surprise rate cut cemented the idea that [the coronavirus outbreak] will be a substantial issue for the economy going forward."

- Deutsche Bank chief U.S. economist Matthew Luzzetti sees the Fed cutting another 50 basis points at its meeting in two weeks, "a move that would be consistent with the historical experience of inter-meeting actions."

The big picture: Lower rates and more central bank stimulus are now expected around the globe, Mark Haefele, global CIO of UBS Global Wealth Management, said in a note.

- "We also believe the Fed's rate cut is likely to pressure other leading central banks, including the Bank of England, the European Central Bank, and the Swiss National Bank to act."
- "Meanwhile, we expect China's fiscal support to exceed 2% of GDP this year, after already having announced corporate tax cuts and emergency spending worth 1.2% of GDP."

Quick take: Investors and economists have said for days that monetary policy is unable to combat the underlying problem and central banks now risk wasting what little ammunition they have.

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