Can the Fed save the economy, and your 401k, from the coronavirus? It doesn't look like it.

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Can the Fed really rescue the economy – and your 401(k) -- from the coronavirus?

The Federal Reserve lowered its key interest rate Tuesday by a half a percentage point to a range of 1% to 1.25% in an emergency move, responding to the impact of the outbreak on the economy and financial markets.

But some economists have questioned whether rate cuts can be effective in fighting the coronavirus's distinctive economic impact, which largely centers on fears that limit people's mobility and disrupts global supply chains.

Lower borrowing costs typically spur more consumers to buy houses, cars and other products, and encourage businesses to purchase more equipment such as factory machines, computers.

But historically low rates can't address delayed deliveries from China that leave store shelves half-filled and auto manufacturers short of imported parts. They can't prod shoppers fearful of contracting the virus to visit malls and restaurants. And they can't bring back throngs of foreign tourists to U.S. hotels and shopping centers, including many from China and other countries now subject to travel bans.

Bernard Baumohl, chief global economist of the Economic Outlook Group, likened the Fed's move to "placing a Band-Aid on an arm to cure a headache."

"If people are worried about getting a virus... they stay in their house," RBC Capital Markets said in a research note. "Cutting rates by (half a percentage point) is not going to get them to go see a movie or go to restaurant."

Many analysts expect the epidemic to shave economic growth in the first quarter by at least about half a percentage point to about 1%.

Still. cheaper loans could lead more Americans to buy cars and houses, partly offsetting the negative economic fallout on tourism, retail sales and manufacturing supplies.

"It will add fuel to the housing market," says economist Leslie Preston of TD Economics.

And reducing rates can bolster the market by coaxing investors to move money from bonds that generate less and less income to higher-yielding stocks. That can make consumers feel wealthier, leading them to spend more, at least on the margins. And lower rates can help shore up consumer and business confidence.

“We do believe our action will provide a meaningful boost to the economy,” Fed Chairman Jerome Powell said Tuesday.

On Friday, a Fed statement that signaled it was poised to lower rates boosted the Dow by about 600 points, limiting that day’s losses to about 350 points. The Dow surged nearly 1,300 points Monday – its biggest one-day point gain ever – on news of the G-7 countries planned a response the next day, bouncing back from its worst week since the financial crisis.

Yet Tuesday’s nearly 800 point market plunge points up the limits of the Fed’s arsenal amid a pandemic that’s spreading in the U.S. and globally. Some analysts suggested the rate cut triggered the sell-off by leading investors to fear the virus has darkened the economic outlook more than previously believed.

"Investors may be concerned about what a rate cut signals for economic developments in the months ahead," Mark Haefele, chief global investment officer for UBS, wrote to clients.

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