



OUR THOUGHTS ON THE CLOSING OF TWO FED CREDIT FACILITIES

U.S. Treasury Secretary Steven Mnuchin recently (and unexpectedly) announced that several Federal Reserve (Fed) lending programs—enacted in response to COVID-19 economic impacts—won't be extended beyond year's end. Among the pending closures are two corporate credit facilities that support corporate bonds.

Our thoughts on the possible implications of Mnuchin's decision:

- **Lightly Utilized:** The two credit facilities had been lightly utilized, deploying less than \$14 billion of the \$750 billion available. The market has largely viewed the ongoing purchases as immaterial compared to the psychological impact achieved through the March 23 announcement of the credit facilities' formation, which signaled the extent of the Fed's support.
- **Modest Impact:** We expect only a modest impact on spreads in the short run given the underlying economic momentum and reduced market uncertainty with the development of COVID-19 vaccines, conditions that may provide a more attractive entry point for investors able to withstand some volatility.
- **Infrastructure in Place:** The credit facilities took about three months to begin purchases of corporate bonds, but now, with all the infrastructure in place, they could be operating much more quickly should liquidity deteriorate.

In summary, we expect only a modest impact to spreads in the near-term as credit markets have been functioning normally and haven't been reliant upon the Fed's purchases. With most of the programs' impact coming through signaling and not purchases, markets are likely to focus more on the trajectory of the economic recovery and distribution of forthcoming vaccines. Importantly, the Fed immediately objected to Mnuchin's move, stating, "The Federal Reserve would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy." This stance may speed any needed reopening of the credit facilities, especially with the infrastructure already in place.

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