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The Mnuchin-Powell Dream Team Faces Its Biggest Test.

The Treasury has resisted extending the Fed's lending programs past year-end. Political pressure will only complicate the decision.

Throughout the U.S. coronavirus crisis, investors have viewed Federal Reserve Chair Jerome Powell and Treasury Secretary Steven Mnuchin as steady leaders who are capable of steering the world's largest economy through uncharted waters. They have appeared together before Congress to give updates on their joint emergency lending programs, which helped restore smooth functioning to corporate-bond and municipal-debt markets. Even when elected officials in both parties dragged their feet on another round of fiscal aid, traders could seemingly rest easy knowing that the Mnuchin-Powell duo would remain above politics and keep markets and the economy on the right track.

That was before last week's U.S. elections, which showed Joe Biden winning the presidency while Republicans appear likely to retain control of the Senate. Now it seems Democrats and Republicans are jockeying for power, and Mnuchin risks being thrown into the fray as well, given that his time as Treasury Secretary is presumably drawing to a close.

The most pressing issue on the table is whether to extend some or all of the Fed's emergency lending programs, which are set to expire on Dec. 31. The Municipal Liquidity Facility, for instance, which offers a backstop to state and local governments, will only accept notices of interest for loans at least 30 days before year-end, according to a central bank statement last month. So as it stands, three weeks from now, no state or city will be able to turn to the Fed to issue bonds at a known interest rate if Covid-19 outbreaks threaten their residents and economies.

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