
Fed Continues ETF Buying, Signals Muni Lending Facility Imminent.

The Federal Reserve's weekly balance sheet update showed its holdings of exchange-traded funds continued to grow over the past week, while also signaling that a lending program for states and municipalities would soon be operational.

Fed holdings of ETFs invested in corporate debt rose to $2.98 billion as of May 26, according to the data released Thursday, up from $1.8 billion a week earlier. The ETF purchases, which began on May 12, are part of an emergency lending program designed to backstop large corporate borrowers amid the coronavirus pandemic.

Total assets held in the special-purpose vehicle set up for that program, known as the Secondary Market Corporate Credit Facility, was shown as a much larger amount. But a note with the release explained that this reflected the U.S. Treasury Department's equity contribution to the facility to shield the Fed from losses, of which 85% must be invested in non-marketable Treasury securities and reported in the net holdings of the program.

The Fed also added a line item for another emergency lending program for state and local government borrowers, known as the Municipal Liquidity Facility, which has yet to launch.

"On May 26, 2020, the Federal Reserve Bank of New York received Treasury's equity contribution for the MLF program," the explanatory note said.

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