

# Bond Case Briefs

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## This Fed-Treasury Public Fight Has No Winners.

**The coronavirus crisis dream team of Jerome Powell and Steven Mnuchin cracks after the election.**

So much for the synergy between Federal Reserve Chair Jerome Powell and Treasury Secretary Steven Mnuchin in combating the fallout from the coronavirus pandemic.

In what might be an unprecedented public spat between two of the nation's most prominent economic leaders, Mnuchin sent a letter to Powell on Thursday that said he would let certain emergency lending facilities created by the Coronavirus Aid, Relief, and Economic Security Act expire on Dec. 31, citing what he saw as "congressional intent." Moreover, he requested that the Fed return almost \$200 billion of unused funds to the Treasury, which would "allow Congress to re-appropriate \$455 billion, consisting of \$429 billion in excess Treasury funds for the Federal Reserve facilities and \$26 billion in unused Treasury direct loan funds."

The Fed responded almost immediately with a short statement: "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." Shots fired.

At stake is the future of the Municipal Liquidity Facility, the Main Street Lending Program, the Primary Market Corporate Credit Facility, the Secondary Market Corporate Credit Facility and the Term Asset-Backed Securities Loan Facility. By contrast, Mnuchin requested a 90-day extension of the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Liquidity Facility and the Paycheck Protection Program Liquidity Facility.

I argued last week that it would be a mistake in particular to let the facilities for municipal bonds and small businesses expire, not just because their finances are the most imperiled by the pandemic but also because these programs are hardly used in the first place — a backstop in every sense. Those for corporate debt, on the other hand, don't seem quite as necessary given that junk-bond yields are near a record low and the investment-grade markets are wide open.

Mnuchin argues in his letter is that the facilities "have clearly achieved their objective," rattling off municipal-debt issuance figures, corporate-bond spreads and rates on asset-backed securities. Still, the announcement flies in the face of Powell's long-held position — which was thought to be shared by Mnuchin — that "when this crisis is behind us, we will put these emergency tools away." The Covid-19 pandemic is only worsening across America, from rural counties to New York City.

What happens now is something of an open question. Bharat Ramamurti, a member of the Congressional Oversight Commission, says the Fed can retain the \$195 billion that's already been committed to the lending programs established by the Cares Act. "That's why (I imagine) the Mnuchin letter is a 'request' to return the funds, not just asserting his authority to take the money back," he said on Twitter.

It would be a remarkable move by Powell, who has repeatedly talked about the importance of

elected leaders directing public funds, to deny Mnuchin's request outright. But at the same time, he said just this week that "I don't think the time is yet, or very soon," to wind down the emergency facilities. Handing back the money would severely constrain the Fed and President-elect Joe Biden's pick for Treasury Secretary from easily firing them back up should the need arise. If the Fed no longer had the Cares Act money, it could only back the facilities with "Core ESF funds, to the extent permitted by law, or additional funds appropriated by Congress," according to the letter.

Mnuchin, for his part, argued in an interview with Bloomberg News late Thursday that companies hurting from the pandemic need grants, not debt, and that he hopes the leftover funds are used to help the economy. Presumably, it would be significantly easier to sell Congress on appropriating these funds rather than working toward a bipartisan fiscal aid package, which has remained elusive for months and which President Donald Trump might not support anyway.

Tony Fratto, former assistant secretary for public affairs at the Treasury during the George W. Bush administration, said on Twitter that he's "never seen Treasury and the Fed in a public break. This is disturbing."

Whether the markets interpret it as similarly unnerving remains to be seen. Early indications suggest S&P 500 futures didn't take kindly to a public spat between Mnuchin and Powell, a duo that investors have relied upon to remain above politics and keep the economy on the right track. That dream team is now infighting.

## **Bloomberg Opinion**

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