GUGGENHEIM

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# Macro Alert

# The Fed's Strategic Play

## Closing the Chapter on Its Credit Facilities

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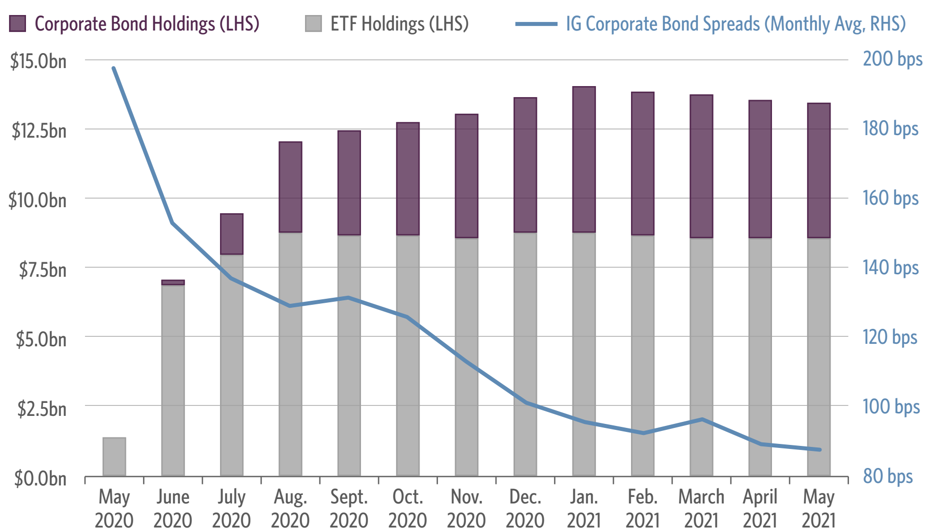
The Federal Reserve (Fed) unexpectedly announced plans to sell holdings of the Secondary Market Corporate Credit Facility (SMCCF) by year-end. Credit investors should stay the course, as this is a sign of market strength rather than a cause for concern. But the bigger point may be the message that the Fed is sending with this decision.

The SMCCF played a critical role in preventing a prolonged disruption in credit markets, and its unwinding marks an important milestone on the road to recovery from the pandemic-induced market volatility. The mere existence of the facility boosted the confidence of investors and corporate issuers alike, facilitating access to funding and secondary market liquidity when needed most.

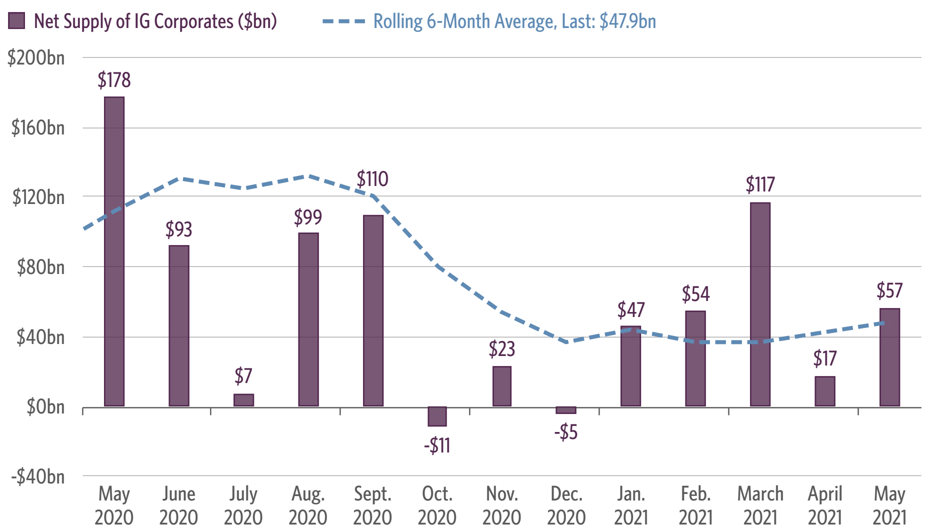
**Corporate Credit Facility Purchases Were Small but Impactful**




Source: Guggenheim Investments, Bloomberg Barclays, Board of Governors of the Federal Reserve System. Data as of 5.31.2021.

The SMCCF was so effective that purchases of corporate bonds and ETFs totaled just $13.7 billion, far short of the $250 billion in capacity. Given the relatively small size of the holdings and the expected pace of sales, this decision should have minimal market impact. At a hypothetical pace of $2 billion per month, portfolio sales would equate to just 4 percent of the monthly average of net investment grade corporate bond supply over the last six months. While we think the market can absorb the sales, if a problem arises the Fed can readily adjust to avoid any adverse impact.

**SMCCF Sales Could Equate to Just 4 Percent of Monthly Net Supply**




Source: Guggenheim Investments, J.P. Morgan. Data as of 5.31.2021.

The bigger question that this decision raises is 'Why now?' Here we believe the Fed is engaging in some strategic maneuvering.

Closing the chapter on the SMCCF could be seen as a sequencing step preceding the start of tapering quantitative easing (QE) purchases, even if the former does not influence the timing of the latter. Indeed, announcing this separately from the FOMC meeting reinforces the message that emergency facilities are not part of the monetary policy toolkit, and that SMCCF sales do not signal that tapering is imminent. In addition, it gives Chair Powell an opportunity in his press conference to show progress while still supporting staying the course.

Finally, this preempts criticism that Powell likely expects at his regularly scheduled Congressional testimony in July. He can now congratulate Congress for their successful partnership and point to efforts underway to extricate the Fed from the corporate bond market. This will help him temper criticism that the Fed is fueling financial excesses.

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