

Discussion of

**“Heterogeneous Intermediaries and Bond Characteristics in
the Transmission of Monetary Policy”**

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[New evidence on the Monetary Transmission Mechanism workshop](#)

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Bank of England, London

The views expressed here are solely those of the discussant and should not be taken to represent the views of the Bank of England (or any of its committees).

What this paper does

- *Analyses* reaction of corporate bond yields to the main **corporate bond** purchase programmes by ECB: *CSPP (2016) and PEPP (2020)*
- *Explains* the excess sensitivity of the lower quality (BBB) bond yields by the *key role of Mutual Funds (MF)* in this market segment
 - corporate bonds with higher mutual fund shares exhibit *an intensified* reaction to the ECB announcements
 - ***“selection and segmentation”***
- *Proposes a reduced form model of segmented markets*, where only a subset of investors can invest in this type of bonds
 - *excess risk premium*

New!

New!

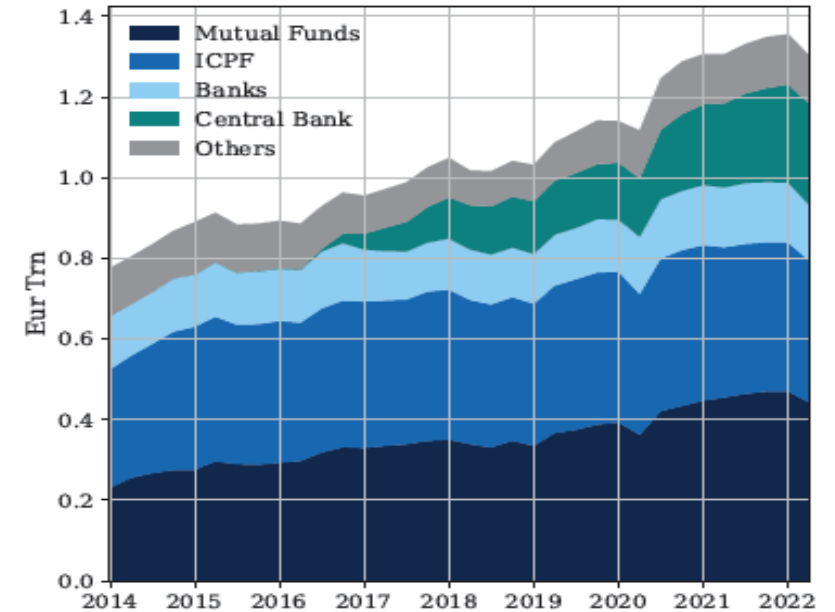
Main discussion points (1): Motivation

- **More info on Mutual Funds holdings:**

1. Who holds BBB rated corporate bonds?

- Figure 1 is great but too aggregate
- In 2016, ICPFs +banks are the largest investors

(b) NFC - Holdings by Sector



Main discussion points (1): Motivation

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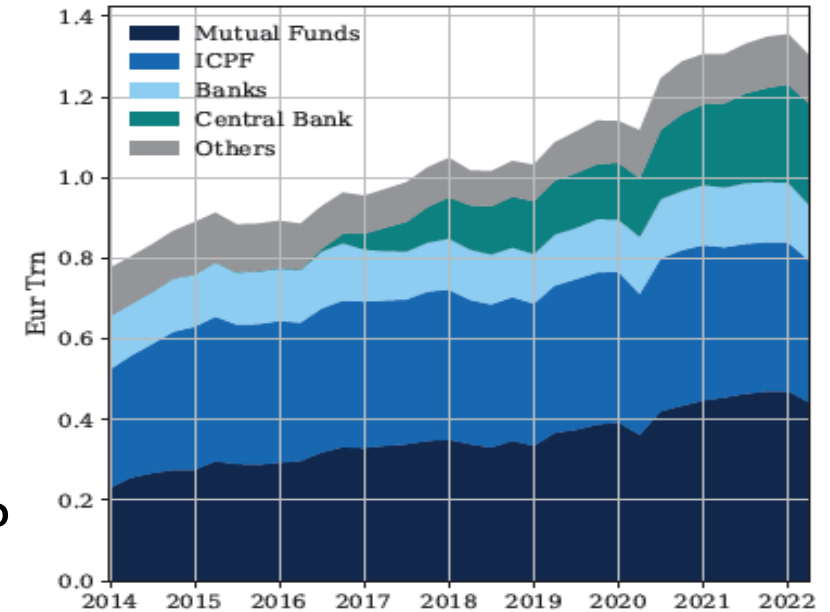
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2. What is the asset structure of MFs holdings?

- Importance of gvt bond holdings

- *Feds Notes, May 2024: “Why Do Mutual Funds Invest in Treasury Futures?”*: Asset managers' net long positions in Treasury futures have reached their historical highs in recent months, driven in part by mutual funds' demand for short- and medium-term Treasury futures.

(b) NFC - Holdings by Sector



Main discussion points (2): Empirics

- 10 March 2016: CSPP announced
 - **along with the APP** increase to €80 billion from €60 billion.
 - eligibility details announced in April, purchases started in June
- 18 March 2020: PEPP announced
 - **along with additional € 750 billion of sovereign debt** purchases in 2020
 - 20 March 2020, Friday: coordinated central bank action to further enhance the liquidity provision
 - 23 March 2020, Monday: Fed's first SMCCF announcement, along with **unlimited Treasury and MBS purchases**, PMCCF, TALF, MMFL, up to \$300 billion in new financing via ESF; daily swap line operations start, following **large increase in actual purchases of Treasury bonds and MBS**
- Focussing the analysis on **narrower windows** could help minimise the possibility of the results being contaminated by other events
 - Daily and 2-day reactions vs. weekly, 2-week and monthly changes
 - In March 2020, Treasury yields dropped significantly when the Fed has started purchases, not on the announcement ([Vissing-Jorgensen, 2021](#)). Could the estimated impact be driven by MFs exposed to Treasuries?

Main discussion points (2): Empirics (contd)

$$\Delta y s_i^n = \beta_n^{MF} \theta_i^{MF} + \text{Interacted Fixed Effects} + \eta_n^{MF} \theta_i^{MF} + \varepsilon_i^n,$$

- **LHS:** Using corporate yields instead of spreads could help to *clean from sovereign yield impacts* (otherwise the spread is affected by government bond-specific term premia affected by QE purchases)
- **RHS:** refining the specification could help to rule out “selection only” story:
 1. **Spreads at (t-1)**
 - Rating agencies are slower to react than asset prices. Investors start rebalancing/selling bonds ahead of rating changes.
 - Liquidity, reversals
 2. **Amount outstanding at (t-1)**
 - ECB purchases are proportional to market value and arguably more important for larger issues
 3. **Eligible vs ineligible**
 4. **Domicile/country**
 - Core vs periphery
 5. **Duration/maturity**
 - Continuous variable vs buckets

Main discussion points (3): Relevant literature

- Comparison to relevant **heterogeneous investor studies of QE**:
 - *Breckenfelder and De Falco (ECB, 2024)*: ECB purchases have **smaller effects** on yields for securities predominantly held by more price-elastic investors - **mutual funds** and banks.
 - *Gilchrist, Wei, Yue, Zakrajšek (2024, JME)*: the Fed's corporate bond purchases in 2020 (announcement, SMCCF) were effective in reducing spreads, the heterogeneous investors mechanism is key for the result.

Main discussion points (4): Theory

- Segmented (“restricted access”) markets vs Preferred Habitat (PH) demand
 - Are the two type of models equivalent?
- In a closely related PH demand model by Vayanos and Villa (2009, 2021), some investors have inelastic demand for particular assets:
 - Core sovereign bonds by ICPFs and foreign officials
 - Recently there has been a boom of model extensions to other assets, eg *Greenwood, Hanson, Stein, Sunderam (2023)*, *Gourinchas, Ray, Vayanos (2022)*; *Costain, Nuno, Thomas (2023)*; *Greenwood, Hanson, Stein (2010)*
 - ***Gilchrist, Wei, Yue, Zakrajšek (2024, JME)***– corporate bond market
 - credit and bid-ask spreads for lower quality bonds have dropped further after actual purchases
 - the results are not driven by default risk, consistent with market confidence channel
 - explained by reduced market risk aversion effects, through the lenses of the PH framework
- Role of corporate bond issuance, which is responsive to UMPs?
 - *Todorov (2020)*, *D’Amico, Kaminska (2019)*

Miscellaneous

- Be clear on regression specifications: IG vs HY, All vs PNFC, etc
- Focus on 2016 purchases (CSPP) vs PEPP in 2020
- De-emphasize HF conventional monetary policy shocks (or introduce additional QE and confidence MP shocks)
- Discuss more the links between various monetary policies (conventional & UMP, gvt bond & corporate bond QE)
- ...and QT!
 - There is a lot more supply available given the increased issuance post 2020 – what are the model implications? Are the impacts of QT asymmetric?

To conclude

- A great and clearly motivated paper advancing our understanding of the **transmission mechanism of QE**
- Focuses on the **corporate bond purchases** and provides the mechanism through which it impacts corporate yields and spreads
- Presents a framework with a vast potential for **policy applications**:
 - Analysis of simultaneous and consequent implementations of conventional and unconventional policies; role of the MFs and their constraints for MTM
- Some suggestions: focus on CSPP rather than PEPP, analyse narrower event windows, introduce more controls to isolate CSPP-specific effects