Report Summary Letter from Chairman Jay Clayton and Chief Economist S.P. Kothari

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Dear Reader,

This report examines the structure and function of the $54 trillion U.S. credit markets with a focus on interconnections among various market segments. The report also discusses how those markets functioned in March 2020 in response to both the COVID-19-induced economic shock and the related monetary and fiscal policy responses. The principal purpose of the report is to identify key structural- and flow-related interdependencies in the U.S. credit markets as well as areas of stress revealed by the COVID-19 shock with an eye toward informing policymakers as we seek to improve the functioning and resilience of our financial markets.

We welcome comments on the report and have scheduled a conference to discuss the report for October 14th at 1:00 pm EDT. The conference will be live-streamed publicly.

Key takeaways from the report are:

- The U.S credit markets, in size, structure and function have changed significantly since the 2008 Global Financial Crisis.
- The credit markets are highly interconnected which can both accelerate risk transmission and facilitate risk absorption.
- The broad stress in the short-term funding markets caused by the COVID-19 shock demonstrated that the ability and willingness of intermediaries (e.g., "market makers") to absorb significant, rapid shifts in investor sentiment (e.g., a "dash for cash") is limited in absolute terms and may become more limited as spreads widen and volatility increases during periods of stress and uncertainty.
- Due to the interconnected nature of our credit markets and the size and scope of the COVID-19 shock, it was insightful, prudent and, perhaps, essential that the actions of the Federal Reserve and the CARES Act were multi-faceted and immediate. Those actions were instrumental in ameliorating stress in the credit markets, particularly the short-term funding markets.
- The combination of the Federal Reserve's intervention and the fiscal actions by the Treasury Department and Congress also was extremely important in stabilizing prices (e.g., housing prices) and sustaining economic activity (e.g., consumer spending), which in turn added stability to the credit markets.
- General economic and credit stresses from the initial and ongoing effects of the COVID-19 shock are still unfolding, and we must continue to monitor key market segments—e.g., corporate debt, municipal securities and commercial real estate (CRE)—both individually and as interconnected components of our financial system.

We look forward to your comments,

Jay Clayton and S.P. Kothari