Bond Investors Upend Their Portfolios to Greet Fed’s New Reality

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Bloomberg  March 24, 2020

(Bloomberg) -- Bond investors are struggling to adapt as the Federal Reserve’s emergency actions to combat the pandemic reshape their markets in ways that may be irrevocable.

An uneasy calm took hold Tuesday as traders confronted the astronomical program of quantitative easing unveiled Monday, which commits the U.S. central bank to an unlimited amount of bond purchases to shore up markets. This respite marks a sharp contrast to the reaction just a week ago, when stocks sank and yields spiked despite policy makers slashing rates to zero and rolling out a half-trillion-dollar Treasury purchase program. The new tone suggests the...
quick fix may be holding, but investors must now navigate a fundamentally altered landscape. following the 2008 crisis. Then, it took the Fed seven years to push rates up from zero. The central bank’s balance sheet is larger than it’s ever been, and regulatory changes have recast the role of dealers, who say they’re less able to keep the machinery of markets humming. That’s led some to speculate that the U.S. faces Europe and Japan’s fate: zero rates and low growth for years and years.

“When the dust settles and we look at where we are in terms of the Fed’s balance sheet, interest rates and outright Treasury debt outstanding, it’s going to paint a fairly bleak picture in the long term,” said Bryan

For TCW, which Whalen said entered the crisis “as defensive as we’ve almost ever been,” that means picking its way carefully back into blown-out credit markets, where spreads are getting attractive but risk remains high. He doesn’t love Treasuries given their low yields, but he favors long-dated bonds, which are buoyed by moribund expectations for growth and it

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