

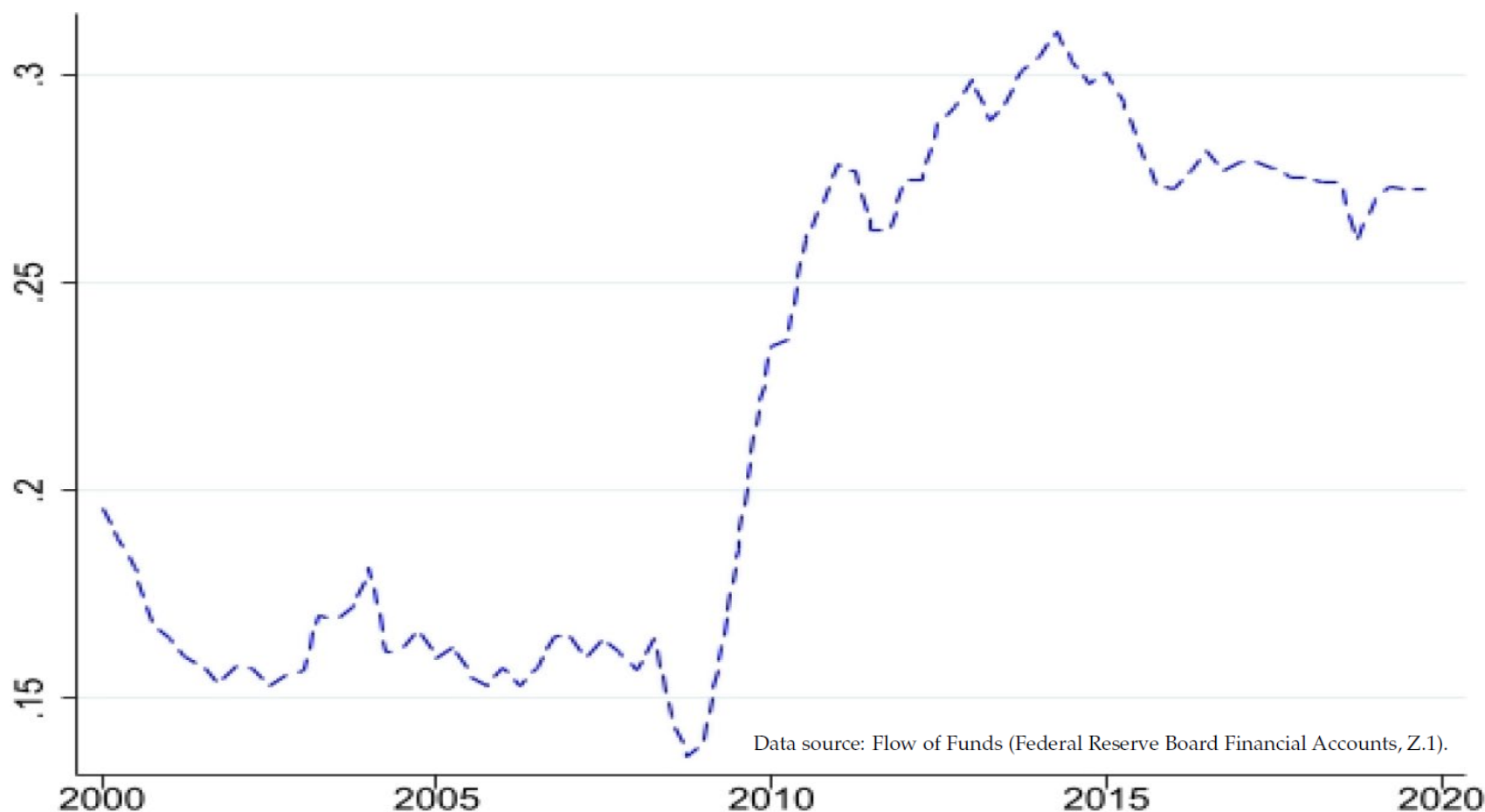
Discussion of “Nonbank Fragility in Credit Markets: Evidence from a Two-Layer Asset Demand System” by Darmouni, Siani, and Xiao

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This Paper: Backdrop

- Spectacular growth of NBFIs (mutual funds) in the bond market



This Paper: Summary

- Combines an asset demand model in the tradition of Kojien and Yogo (2019) with data to examine the consequences of NBFIs for corporate bond market fragility
 - Topical issue with potentially consequential policy implications
- Three main forces:
 - Feedback loop via inst. flow-performance relation
 - X-asset contagion via bond demand elasticity
 - X-institution contagion via inst. holdings overlap

This Paper: Summary (continued)

- Results
 - HY and ST bonds more systemic than IG and LT
 - More bang for the buck from targeted policies (MF lending) relative to policies that “get in all the cracks” (MP)

- Will focus my comments today on a few additional exercises which may help to maximize paper’s impact

Spelling out NBFIs Fragility

Apply the model beyond the COVID crisis

- For example, Taper Tantrum in June-July 2013 was less severe than COVID yet the other most stressful episode over the last decade (Feroli et al. (2014))
 - Were the sources of fragility the same as in the COVID crisis?
 - Was any of the three forces more/less important?
 - (How) do your conclusions about stabilization policy change?
- Can also do a “placebo test” by applying the model to normal times
 - What makes normal times “normal”?
 - Is any of the three forces still at play even in normal time?

Quantify the three sources of fragility

- Do an additional set of counterfactuals that “switch off” each of the three sources of fragility sequentially
 - For example, how much volatility/price impact with a counterfactually low flow-performance relation?
 - How much with counterfactually low demand elasticity?
 - How much with counterfactually low demand cross-elasticities?
- Can use them to gauge relative importance of different sources of fragility
- Also would speak to presence of interactions/non-linearities
 - Is fragility due to both high flow-performance *and* high demand elasticities?

Quantify which NBFIs lead to fragility

- Do an additional set of counterfactuals that change investor clientele
 - For example, surge of MF and decline in insurers
 - Or surge of insurers and decline of MF
- Would provide direct quantification of relative contribution of different types of NBFIs to fragility
 - Are the implications for fragility of growth vs. decline of MFs linear or there a cliff effect past a certain MF size?
 - Are the implications of increase/decrease in MF size symmetric?
 - Do they depend on the composition of the rest of the investor clientele?

In Summary

- Nice paper
 - Consequential question and promising research approach
- Is it useful to have an empirical demand model to assess NBFIs fragility?
- I think so, but would be great to further leverage the model
 - Current setup is a rich laboratory
 - Expanding the quantitative analysis will help to clarify the relative importance of different channels/sources of fragility