Newsletter | Odd Lots

Maturity Matters in Monetary Policy

A figurative maturity wall. *Photographer: Jason Alden/Bloomberg*

By Tracy Alloway and Joe Weisenthal
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This article is for **subscribers only**.

Hello and welcome to the newsletter, a grab bag of daily content from the Odd Lots universe. Sometimes it's us, Joe Weisenthal and Tracy Alloway, bringing you our thoughts on the most recent developments in markets, finance and the economy. And sometimes it's contributions from our network of expert guests and sources. Whatever it is, we promise it will always be interesting.

If you like chatting with us, check out the Odd Lots Discord, where you can hang out and talk with us and with other listeners 24/7.

Send us your questions

The year is coming to a close and so we're gearing up for our **annual *Odd Lots* Holiday Ask Me Anything call-in show.** If you have questions for either of us or the rest of the *Odd Lots* team, then now is your chance.

Just record a voice memo with your question and send it to oddlots@bloomberg.net Don't forget to include your name and location. Jokes, personal anecdotes and anything else you'd to include for the show are also appreciated.

Please send your questions before this Friday, Dec. 13!

Here's what Tracy's thinking about

One of the big stories of the post-pandemic era has been the US economy's surprising resilience in the face of higher interest rates. Sure, bankruptcies

have certainly ticked up, but we're nowhere near the disaster level that had been predicted by various doomsayers.

Many companies have been able to refinance their debt, so the proverbial looming maturity wall has been getting bigger. But crucially, not that many firms have really been bumping up against it. This is is surprising because higher rates are *supposed* to cause corporate suffering. Cost of capital goes up, which leads to less investment and a pullback in other types of corporate spending (like employment), which eventually reduces pressure on prices.

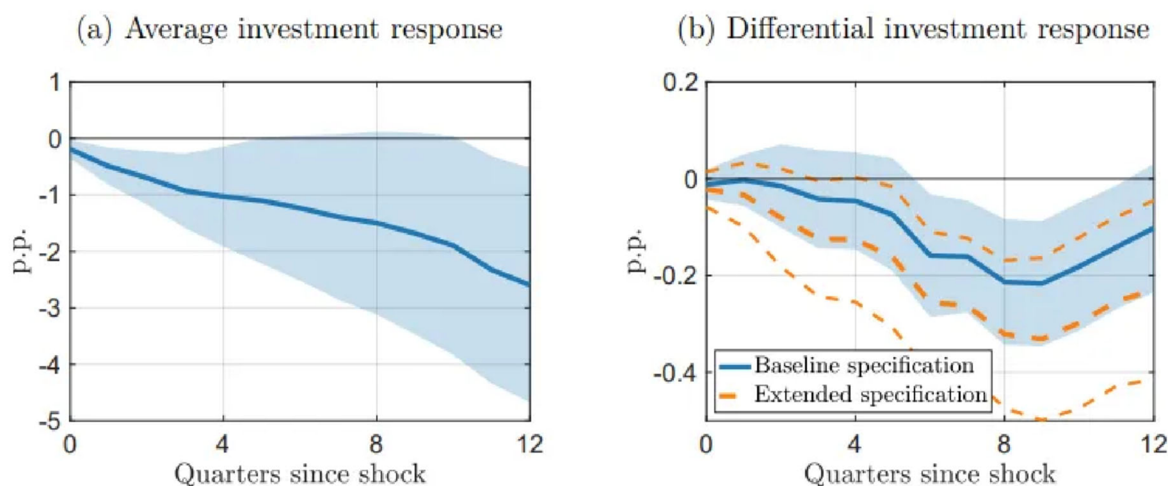
But that hasn't really been what we've seen recently. Inflation has come down (November CPI just came in as expected, at 3.3% year-on-year), but it looks a lot more like "immaculate disinflation," as opposed to stemming from some huge corporate pullback. (Unemployment at 4.2% is still pretty close to a multi-decade low).

Enter a new working paper from the Federal Reserve, which adds some nuance to the the idea of how monetary policy works through the corporate channel. In short, authors Joachim Jungherr, Matthias Meier, Timo Reinelt, and Immo Schott find that the *composition* of corporate debt (not just the amount) matters for monetary policy.

For instance, companies tend to pull back more on their spending in the face of higher interest rates, when when they have a lot of debt maturing at that same time:

> "**The main result of our empirical analysis is that firms' investment is more responsive to monetary policy if a larger fraction of their debt matures at the time of a shock.** This result is statistically and economically significant. **After a typical contractionary monetary policy shock, firms with a one-standard deviation higher maturing bond share experience a persistent additional reduction of their capital stock which peaks at 0.2% eight quarters after the shock. Assuming an annual investment-to-capital ratio of 10%, this corresponds to a reduction of investment of 1%.** A higher maturing bond share is also associated with amplified responses of credit spreads, debt, sales, and employment. These results are robust to controlling for

permanent differences across firms as well as various time-varying firm characteristics such as size, age, leverage, and liquidity."



Source: Fed working paper

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That makes intuitive sense, but it's nice to see it quantified like this. If you're a company facing a wall of immediately maturing debt and rates suddenly go up, you're probably going to prioritize rolling over that debt as opposed to spending money on investment. (Plus, the cost of capital investment has just gone up).

So companies' respective experience of tighter (or looser) monetary policy depends a lot on how 'looming' their respective maturity wall actually is. The nuance helps explain why the impact of higher interest rates hasn't been felt evenly across the board. As Schott puts it: the difference "across firms is important if we want to understand which firms are most affected by monetary policy."

Obviously, this also matters for monetary policymakers. They arguably need to take into account the shape of the maturity wall in addition to its overall size, when judging the full impact of changes in rates – and how long they take to feed through to the real economy. One interesting wrinkle here is that getting a good handle on the shape of corporate debt could be getting harder, as more and more corporate borrowing comes in the form of the black hole of private credit.

What we're reading

- Microstrategy's money loop.

- Patrick Mackenzie debunks debanking.

- AI is coming for management too.

- Dodging EU tariffs is getting harder.

- Mike Cembalest is visited by five ghosts.

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