Discussion
"Identifying the Portfolio Balance Mechanism" by J. Duarte and T. Umar

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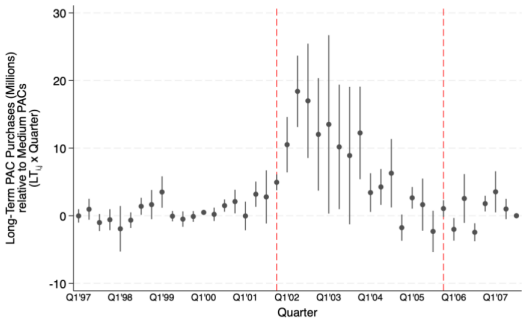
Summary

- Does the Portfolio Balance Mechanism (PBM) hold empirically? Answer by looking at the 30-year UST bond auctions suspension, between 10/31/2001-5/4/2005.
- Data: UST and all agency-CMO issued between 1997-2007, plus life insurance companies' bond portfolios.
- Strategy: diff-in-diff.
  - Treatment: suspension announcement.
  - Control group: shorter-term UST, PACs; riskier CMOs.
- Validation of two hypotheses:
  - Issuance of LT PACs increases when the excess supply of LT USTs decreases.
  - Price of LT bonds (USTs and PACs) increases in response to negative supply shocks to LT USTs.
- Contribution: (1) granularity of the data, (2) control groups and falsification tests.

Comment 1: Diff-in-diff

- Expected vs. unexpected announcement: authors address this concern.
- Parallel trends: Figure 3 addresses this for PACs of different maturities.
- What about UST vs PACs: are their trends parallel? What is the right parallelism to test?
- Table 3, Column 2: low significance result.

Figures



	$PACs_{i,j,q}$	$UST_{i,j,q}$	$SEQs_{i,j,q}$	$\frac{PACs_{i,j,q}}{AUM_{j,y-1}}$	$\frac{UST_{i,j,q}}{AUM_{j,y-1}}$	$\frac{SEQs_{i,j,q}}{AUM_{j,y-1}}$
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}(LT)_{i,j} \times \mathbb{1}(\text{No Auction})_q$	6.99**	-12.45*	-1.50	0.06***	-0.07*	-0.01
	(3.32)	(7.09)	(1.60)	(0.02)	(0.04)	(0.01)
$\mathbb{1}(LT)_{i,j} \times \mathbb{1}(\text{Post Period})_q$	0.24	-1.91	-0.28	-0.01	0.00	-0.01
	(0.95)	(2.56)	(0.60)	(0.01)	(0.02)	(0.01)
$\mathbb{1}(LT)_{i,j}$	0.21	-4.31***	1.55**	0.01	-0.08***	0.02***
	(0.50)	(1.29)	(0.62)	(0.01)	(0.02)	(0.01)
$SEQs_{i,j,q}$	0.45***					
	(0.16)					
$\frac{SEQs_{i,j,q}}{AUM_{j,y-1}} \times 100$				0.29***		
				(0.04)		
Constant	1.62	11.13***	2.96***	0.05***	0.12***	0.04***
	(0.97)	(1.34)	(0.45)	(0.01)	(0.01)	(0.00)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
% Adjusted R^2	23.51	12.29	19.68	12.20	11.81	9.59
# Insurers	250	250	250	250	250	250
# Quarters	44	44	44	44	44	44
# Observations	19960	19960	19960	19960	19960	19960

Comment 2: Regression

- Regression:

$$\begin{aligned}\Delta PAC_{i,j,q} = &\beta_1 \times \mathbb{1}(\text{LT})_{i,j} \times \mathbb{1}(\text{No Auction})_q \\ &+ \beta_2 \times \mathbb{1}(\text{LT})_{i,j} \times \mathbb{1}(\text{Post Period})_q \\ &+ \beta_3 \times \mathbb{1}(\text{LT})_{i,j} + \mu_j + \eta_q + \text{Controls}_{i,j,q} + \epsilon_{i,j,q}\end{aligned} \tag{1}$$

- Not clear about the "Post Period" variable and its interpretation.
  - Takes the value one for 2006-2007.
  - Does it capture the pre-announcement period only?
- Is quarterly data the best to capture the effect of a one-day announcement?

Comment 3: Contribution

- The PBM is much talked about in Macro and Finance.
- No other papers testing this theory? (besides Greenwood and Vayanos, 2010, and Badoer and James, 2016).
- They only look at life insurance companies...
- ...and only at the role of prepayment risk.
- Would be interesting to put this in context and delineate the future questions.

To sum up

- This is a very good paper with new data and a clear identification strategy.
- Can make a significant contribution to macro, finance, and policy.
- Comments above should be viewed as a way to give context and help view future avenues for research on the PBM.