

Credit-Market Sentiment and the Business Cycle

[Get access >](#)

David López-Salido, Jeremy C. Stein, Egon Zakrajšek

The Quarterly Journal of Economics, Volume 132, Issue 3, August 2017, Pages 1373–1426, <https://doi.org/10.1093/qje/qjx014>

Published: 02 May 2017

Abstract

Using U.S. data from 1929 to 2015, we show that elevated credit-market sentiment in year $t - 2$ is associated with a decline in economic activity in years t and $t + 1$. Underlying this result is the existence of predictable mean reversion in credit-market conditions. When credit risk is aggressively priced, spreads subsequently widen. The timing of this widening is, in turn, closely tied to the onset of a contraction in economic activity. Exploring the mechanism, we find that buoyant credit-market sentiment in year $t - 2$ also forecasts a change in the composition of external finance: net debt issuance falls in year t , while net equity issuance increases, consistent with the reversal in credit-market conditions leading to an inward shift in credit supply. Unlike much of the current literature on the role of financial frictions in macroeconomics, this article suggests that investor sentiment in credit markets can be an important driver of economic fluctuations.

© The Author(s) 2017. Published by Oxford University Press on behalf of the President and Fellows of Harvard College. All rights reserved. For Permissions, please email: journals.permissions@oup.com

JEL: E32 - Business Fluctuations; Cycles, E44 - Financial Markets and the Macroeconomy, G12 - Asset Pricing; Trading volume; Bond Interest Rates

Issue Section: Article

You do not currently have access to this article.

Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

[Register](#)

Institutional access



Sign in through your institution



Sign in through your institution



[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Credit-Market Sentiment and the Business Cycle* - 24 Hours access

EUR €39.00

GBP £33.00

USD \$43.00

Rental



This article is also available for rental through DeepDyve.