The Economics of the Fed Put

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Since the mid-1990s, low stock returns predict accommodating policy by the Federal Reserve. This fact emerges because, over this period, negative stock returns comove with downgrades to the Fed's growth expectations. Textual analysis of the FOMC documents reveals that policymakers pay attention to the stock market, and their negative stock-market mentions predict federal funds rate cuts. The primary mechanism why policymakers find the stock market informative is via its effect on consumption, with a smaller role for the market viewed as predicting the economy.

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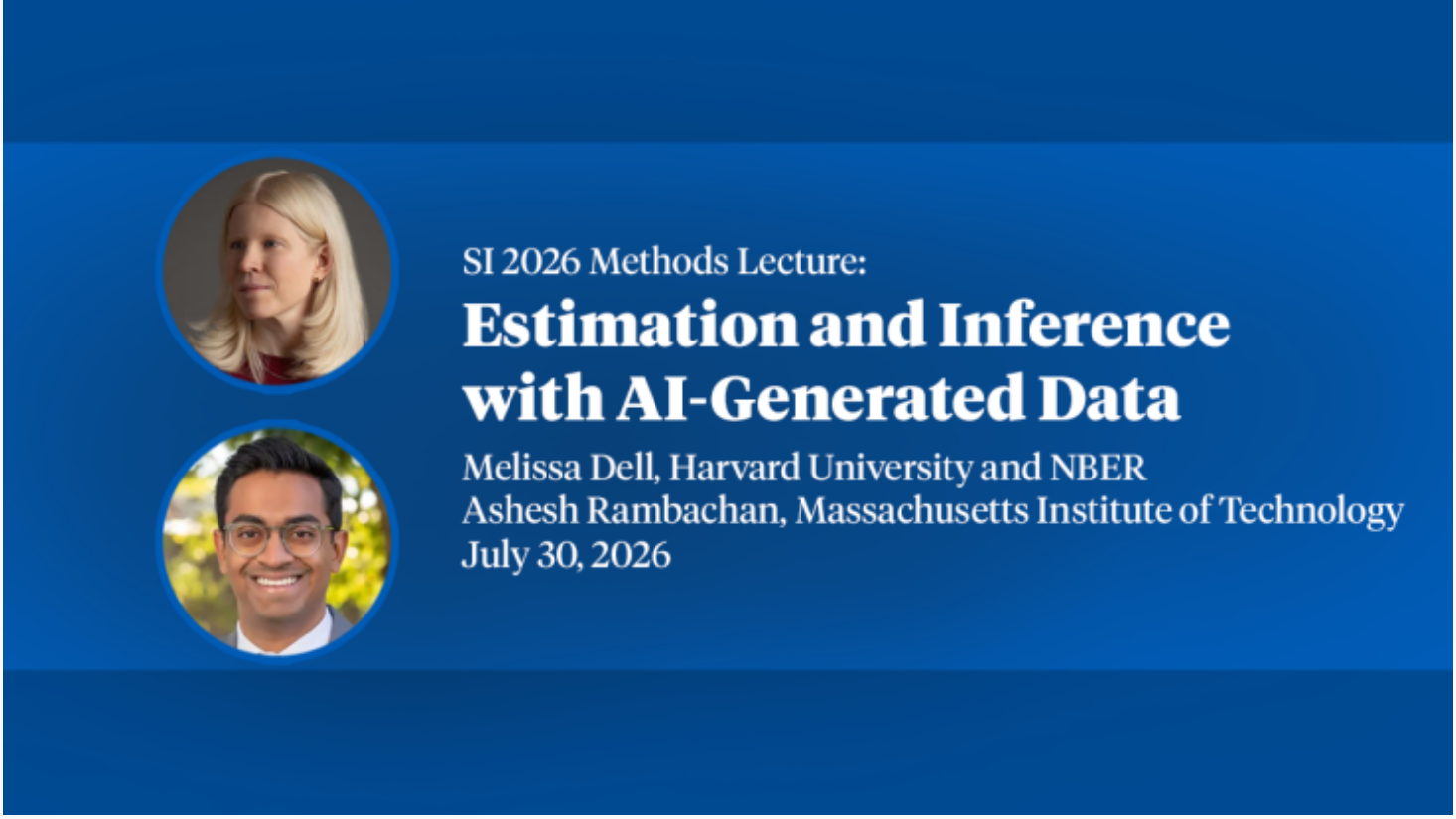


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