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The Economics of the Fed Put

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WORKING PAPER 26894

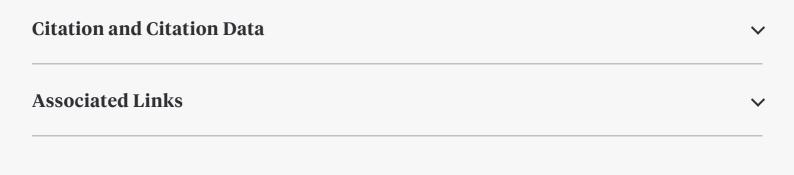
DOI 10.3386/w26894

ISSUE DATE March 2020

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 stockmarket 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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Anna Cieslak & Annette Vissing-Jorgensen & Ralph Koijen, 2021. "The Economics of the Fed Put," The Review of Financial Studies, vol 34(9), pages 4045-4089. citation courtesy of RePEc

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Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

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