Summary of *Fearing the Fed: How wall street reads main street*

Vadim Elenev, Tzuo-Hann Law, Dongho Song, Amir Yaron(JFE, 2024)

2024.05.21 ShiWanqing

1. **What are the research questions?**
   - What mechanism underlying the time variation in stock price sensitivity to MNAs?

2. **Why are the research questions interesting?**
   - response of stock prices to MNAs is time-varying
   - An explanation: revisions to policy expectations embedded in the news.
     - Good news always good for cash flows, but sometimes bad for discount rates.
     - However, evidence of this explanation is lacking.

3. **What is the paper's contribution?**
   - Establishes empirical facts about the time variation in stock market's reaction to MNAs.
     - **Prior**:contrasted responses in expansions versus recessions (Boyd et al.,2005,. . .)
     - **Extend**: new perspective: periods of peak stock return sensitivity do not coincide with more volatile or negative growth periods.
   - contribute to mechanism of the variation in stock sensitivities to macro news.
     - **Prior**: some mechanisms: subsequent monetary policy actions by the Fed(Cieslak and Vissing Jorgensen ,2017),fiscal policy expectations(Xu and You,2023)
     - **Extend**: consistent with expectations of monetary policy responses to macro news.

4. **What hypotheses are tested in the paper?**
   - H1: The stock market's reaction to major MNAs is time varying.
   - H2: Stock sensitivity change can be explain by monetary policy expectations.

   a) Do these hypotheses follow from and answer the research questions?

   - Yes, show two parts of monetary policy, which rise and fall in opposition to each other.

   b) Do these hypotheses follow from theory? Explain logic of the hypotheses.

   - Positive macro news may lead to Fed tightening offsetting stock valuation gains. In below-trend periods, stocks respond more to macro news due to lower policy response.

5. **Sample: comment on the appropriateness of the sample selection procedures.**
   - Very comprehensive.Will there be overlapping event windows?

6. **Comment on the appropriateness of variable definition and measurement.**
   - Can economists' expectations represent general public? Can-1 day expect be absorbed?

7. **Comment on the appropriateness of the regress/predict model specification.**
   - Can time series analysis be used to assess time-varying effects?

8. **What difficulties arise in drawing inferences from the empirical work?**
   - How to eliminate the influence of other significant betas in Q2

9. **Describe at least one publishable and feasible extension of this research.**
   - Explore the factors influencing the sensitivity of the stock market to ESG performance.