

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

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1. What are the research questions?

- What the mechanism underlying the time variation in stock price sensitivity to MNAs is?

2. Why are the research questions interesting?

- Response of stock price to MNAs is time-varying
 - Good news for cash flows sometimes bad for discount rate.
 - Corresponding evidence is lacking

3. What is the paper's contribution?

- Contribution to literature on stock market's reaction to MNAs news.
 - **Prior:** the effect may depend on the state of economy.(See, e.g., McQueen and Roley (1993))
 - **Extend:** the most sensitive periods do not coincide with negative growth periods.
- Contribution to mechanism of the variation in stock sensitivity to MNAs.
 - **Prior:** Monetary policy changes by the Fed; fiscal policy expectation changes.(See Cieslak and Vissing Jorgensen (2017), Xu and You (2023))
 - **Extend:** Expectations of monetary policy responses to MNAs.
- Contribution to studies analyzing the relative importance of cash flows versus discount rates.
 - **Prior:** focus on either cash flow or discount rates.(See, e.g., Campbell and Shiller (1988))
 - **Extend:** combine both channels and analyse the relative importance in explaining stock market responses.

4. What hypotheses are tested in the paper?

- H1: Stock market's sensitivity to MNAs varies counter to the economic cycle.
- H2: Stock sensitivity change can be explained by change in expectation in monetary policy.
- H3: Stock and bond markets have similar sensitivity to monetary policy expectations.

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

- Yes.

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

- Yes, H1 focuses on the main research questions, H2 and H3 examine the channels through which MNAs make a difference.

5. Sample: Comment on the appropriateness of the sample selection procedures.

- There are periods marked by extreme events which may exhibit unusual behavior.

6. Dependent and Independent Variables.

Economic indicators are often interrelated, which could lead to multicollinearity.

7. Regression/prediction model specification.

- Nonlinear form can capture more complex relations between MNAs and stock returns.

8. What difficulties arise in drawing inferences from the empirical work?

- Is the non-linear model sufficient enough to incorporate the effect?

9. Describe at least one publishable and feasible extension of this research.

- Explore fund behavior and performance in response to MNAs