Macro Roundup Artcile

Headline: The Fed and the Secular Decline in Interest Rates

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Tweet: .@seba_hill documents that almost all the decline in real interest rates since 1980 occurred in a 3-day window around Fed announcements.

Summary: A narrow window around Fed meetings fully captures the secular decline in U.S. Treasury yields since 1980. By contrast, yield movements outside this window are transitory and wash out over time. This is surprising because the forces behind the secular decline are thought to be independent of monetary policy. Why did the secular decline in interest rates occur around FOMC meetings? While the Fed might have no direct control of long-term yields, it seems possible that the Fed provides information to the market about the long-run level of interest rates. This long-run Fed information effect might therefore explain why long-term interest rates move around FOMC meetings. In recent decades, this would imply that the market learned about secular interest rate decline – including the trend in r□– from the Fed.

Primary Topic: Financial Markets

Topics: Academic paper, Database, Financial Markets, Savings Glut/Trade Deficit, Weekly

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