FOMC Expectations and Stock Resonances

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Abstract

We provide a novel assessment of investor expectations for the Federal Open Market Committee (FOMC) meetings from three perspectives—investor sentiment, investor attention, and investor disagreement. Investor expectations for each meeting are measured against news articles predicting future monetary policies. We find a high degree of consistency between predictions and decisions, which proves the assumption made by Bernile et al. (2016) that policy information is "intentionally" leaked in advance. According to the types of FOMC meetings and decisions announced at the meetings, the transmission mechanisms of investor expectations, target rate decisions, and the stock resonances are explored. The results show that: (ⅰ) it is the expected investor sentiment rather than FOMC meeting decisions or investor sentiment after the meeting that has an impact on future inter-meeting excess returns, and the impact is about 1.2 times; (ⅱ) Investor sentiment can replace stock market performance proposed by Cieslak and Vissing-Jorgensen (2020) to reflect target rate changes; (ⅲ) Investor expectations provide a reminder of stock risks on the day of the meetings and during future meetings. Investor sentiment primarily hints at stock risks on and after scheduled meetings, while investor attention and investor disagreement serve unscheduled meetings.

Keywords: Investor Expectations, Monetary Policy, Stock Returns, Trading Volume, Stock Volatility