

ВЗАЄМОДІЯ ФІНАНСОВОГО РИНКУ ТА РЕАЛЬНОГО СЕКТОРУ ЕКОНОМІКИ

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ASSET PRICING AND FOMC PRESS CONFERENCES

Many studies show that monetary policy exerts a considerable influence on financial markets and that asset prices respond strongly to scheduled Federal Open Market Committee (FOMC) announcements about interest rate policy decisions (Bernanke and Kuttner, 2005, Savor and Wilson, 2013, Lucca and Moench, 2015 among others). Being the body responsible for the monetary policy of the U.S. Federal Reserve System (informally known as FED), the FOMC regularly meets and discusses the state of the economy to further make monetary policy decisions. Particularly, the FOMC decided to hold a press conference (PC hereafter) following half of its scheduled meetings in the period from April 2011 till December 2018. This new environment, where the FOMC held a PC just for half of its scheduled meetings, makes it interesting to study the behavior of asset prices by distinguishing days with and without a PC to further gauge the implications of this new communication policy on financial markets. Indeed, Boguth et al. [2019] recently provided empirical evidences of the economic consequences of PC, showing that investors put more attention to announcements followed by them. In particular, the authors find that investors lower their expectations of important decisions on days without PCs, meaning that they expect these days to convey less price-relevant information.

In their paper, Eriksen and Groenborg [2019] continue this new line of research by analyzing the implications of the PC communication policy for financial markets in general. By empirically estimating the Security Market Line (SML), the authors show that the introduction of PCs makes risky and safe assets behave differently on days with (PC days henceforth) and without a press conference (non-PC days

henceforth), arguing that this result show a puzzling fact about the behavior of these assets. The paper's main findings can be summarized as follows. First, announcement day excess returns are concentrated on scheduled FOMC meeting days with risky (safe) assets earning a higher premium in days with (without) a PC over the period 2011-2018. Indeed, the relation for risky assets is consistent with the Capital Asset Pricing model (CAPM), while the relation for safe assets runs counter to this model. Second, market betas for stocks compress towards one on PC days, but stay unchanged on non-PC days. Third, stock-bond correlation is time varying with positive (negative) values on PC (non-PC) days. Finally, they show that international assets also react to this new communication policy, meaning that the FED enjoys a unique position in global financial markets. These results are robust also when including the 25 Fama and French [1992] portfolios and when analyzing specific market anomalies, like the well-known idiosyncratic volatility (IVOL) anomaly of Ang et al. [2006].

In this project, I review and replicate Eriksen and Groenborg's findings to better understand and study this new interesting and puzzling empirical fact: asset prices behave differently in days with and without a PCs. In particular, I carry out the same analysis for the period April 2011 – June 2018 distinguishing FOMC scheduled meetings in those (not) followed by a PC. As an extension to their analysis, I add as a robustness check the study of a well-known market anomaly: the momentum (MOM henceforth). The reasoning behind the curiosity to study MOM portfolios' behavior is based on two main empirical evidences. Neuhierl and Weber [2018] documents that U.S market returns show an upwards drift both before and after an expansionary monetary policy surprise and that, when studying how FOMC decisions affect factor investing, for momentum there is a large effect during contractionary policy decisions but no effect during expansionary policy decisions. Alongside, Boguth et al. [2019] find that investors increase their expectations (meaning that they are likely to expect an expansionary monetary policy decision) and record a larger market risk premium for days with a PC. Based on these two empirical facts, I expect that MOM portfolios (as test assets) should not present a positive and significant SML slope on PC-days.

The next input to the project is to discuss potential reason behind market risk failure to explain MOM portfolios' returns on PC days. One potential explanation can be related to investors' behavior (Nicholas et al., 1998). The focus of this explanation lies in processing information. In other words, MOM returns capture information that

is unrelated to risk. When information unrelated to risk is released, MOM portfolios' returns cannot be explained by CAPM simply because market returns do not capture any significant information for the momentum payoffs. The natural question is what information is then released on FOMC days. I argue that this information is more uncertainty-related and check this claim. The idea behind uncertainty-related explanation is next. Stocks become winners or losers on the basis of some previous event, making their returns highest/lowest among other stocks. But when investors face uncertainty that comes with FOMC announcements and PC days, investors' confidence about their return estimations and future market performance is undermined. For example, when FED unexpectedly announces interest rate increase, we would expect to see increase in overall market returns, which drives market returns volatility up. Also, with market return volatility increase, systematic risk is increasing as well, leading investors to review their beta estimates. This can lead to fact that initial beta estimates for winners and losers were not high or low enough. When investors review betas with new information delivered on PC (Announcements), winners' returns become higher and losers' lower. If indeed information released on PC days is uncertainty-based, we would see high explanatory power of uncertainty proxy for beta-, IVOL- and MOM-sorted portfolios' returns.

For uncertainty proxies I use change in VIX. The economic mechanism behind change in VIX is next. Before FOMC announcements, investors face uncertainty about future stock market behavior. When information uncertainty is resolved on PC or Announcement days (macroeconomic shock), stock market reacts to it by increase in volatility. As investors now face higher stock market volatility, they adjust their expectations about future volatility, which translates into increase in VIX change. As investors review estimates on systematic risk, stock betas are reviewed as well, driving winner stocks' returns up, and losers' down. This mechanism should explain why change in VIX should explain momentum portfolio returns on PC days. As robustness check, I also analyze if information uncertainty matter for other portfolios.

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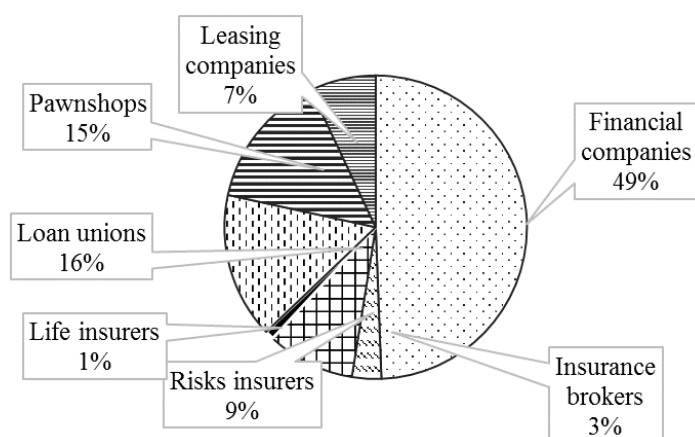
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**THE NATIONAL BANK OF UKRAINE INFLUENCE OF THE INSURANCE
MARKET DEVELOPMENT IN UKRAINE**

An efficient insurance market plays an important role in the economy of any country, as it is one of the most important elements of market infrastructure, which is associated not only with the market of means of production, consumer goods, labor, but also the market of free funds.

From July 1, 2020, the National Bank of Ukraine became not only the regulator of financial, but also a number of new non-banking institutions. Although not much time has passed since then, the National Bank of Ukraine has already begun to implement control over the activities of insurance companies. First of all, the licensing check took place. As of November 30, 2020, 215 insurance institutions and 65 insurance brokers have received insurance licenses.



Picture 1. Market structure of non-banking institutions of Ukraine in November, 2020 [1]