Does Monetary Policy Have Asymmetric Effects on Stock Returns?

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preliminary, comments welcome

The paper is available on http : //ccms.ntu.edu.tw/ $\sim$ sschen

Abstract

This paper investigates whether monetary policy has asymmetric effects on stock returns using Markov-switching models. Different measures of the stance of monetary policy are adopted. Empirical evidence from monthly returns on the standard & Poor 500 (S&P 500) price index suggests that monetary policy has larger effects on stock returns in bear markets. Furthermore, it has been shown that contractionary monetary policy leads to a higher probability of switching to a recession in stock markets.

Keywords: Monetary Policy, Stock Returns, Markov-switching

JEL Classification: E52, E32, G10

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