

Discussion of:  
**Risk, Monetary Policy and Asset Prices in a Global World**

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# Conceptual framework

$$rf_t = \overbrace{\underbrace{\phi_g}_{>0} g_t + \phi_{RA} RA_t + \underbrace{\phi_{UC}}_{<0} UC_t}_{rf_t^*} + \phi_{MP} MP_t$$

$g_t$  is expected consumption growth

$RA_t$  is the risk aversion

$UC_t$  is the uncertainty about aggreg. consumption growth

- **How does  $MP_t$  affected  $rf_t$ ?**
  - Directly through  $MP_t$
  - Indirectly by affecting growth expectations  $g_t$
  - Indirectly through  $RA_t$  and  $UC_t$  (relaxation of banks' VAR, lending standards, search-for-yield)
  - Reach-for-yield, revealing central bank's reaction
- "Modern" monetary policy more about the slope than  $rf_t$
- **How are bonds and stocks affected by changes in  $MP_t$ ?**
  - $MP_t$  affects the term premium that, in turn, affects bond prices
  - $MP_t$  affects interest rates/risk premium and, in turn, affects equity prices

# Main results

Daily data from 2000 to 2015 in the US, euro area, and Japan

- 1) Not a strong effect of monetary policy shocks on either risk aversion or uncertainty
  - Weakening of the risk channel of MP relative to earlier studies
  - Risk aversion and uncertainty comove strongly across countries
  - Can we disentangle these two channels econometrically?
- 2) MP has a strong effect on domestic ST rates
  - Important international spillovers (not only from the US)
- 3) No special role for US monetary policy on equity prices
- 4) Bond prices heavily affected by MP shocks, weak intl spillovers
- 5) The “global risk aversion” is highly correlated with the “global financial cycle” measure by Miranda-Agrippino and Rey (2020)

# Contribution

## US as the “hegemon” country?

- US monetary policy affects risk appetite and thus asset prices around the world (Miranda-Agrippino and Rey, 2020).
- Powell in 2018: *“The role of US monetary policy is often exaggerated.”*

## Why does it matter?

- Is the “dominant paradigm” vanishing?
- Does foreign monetary policy affect domestic financial stability?

## Contribution

- Not really in the methods, but the paper is now a (very thorough) statistical exercise
- Needs more “economics”

# Micro-foundations

## What are the channels of monetary

- No need to add an analysis of investor level holdings
- but I would add a discussion of agents' portfolio choices to further rationalize findings

e.g., investors' international allocation

e.g., bond vs. stock investors

## Stock and bond markets are segmented

- Several results on equity Vs. bond markets (e.g., domestic effects of MP and intl spillovers)
- These markets are segmented. Does it matter?

### Obtain $MP_t$ from high frequency data

- Follow Jarocinski and Karadi (2020) → use high frequency movements in interest rates and stock prices (10min before; 20min after)
- Announcements: FOMC announcements (US), ECB press conferences and “major speeches”
- But monetary policy decisions have been recently inferred by markets well before their announcement (e.g., through interviews by officials and even minor speeches)

### Estimating the effect of MP shocks

- Effectively an event study on event day  
... but effect on  $RA$  and  $UC$  might take more to be incorporated in prices.

# Overall

- Thorough analysis of effects of MP and risk shocks on asset prices in US, EUR, JP
  - New results on international spillovers
  - **The international role of US MP might have been exaggerated**
- ▶ My comments:
- More economics (motivation, microfoundations)
  - A few quibbles about  $MP_t$
  - Exchange rates?