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Measuring the Effects of Federal Reserve Forward Guidance and Asset Purchases on Financial Markets

Abstract

I extend the methods of Gurkaynak, Sack, and Swanson (2005) to separately identify the effects of Federal Reserve forward guidance and large-scale asset purchases (LSAPs) during the 2009–15 U.S. zero lower bound (ZLB) period. I find that both forward guidance and LSAPs had substantial and highly statistically significant effects on medium-term Treasury yields, stock prices, and exchange rates, comparable in magnitude to the effects of the federal funds rate before the ZLB. Forward guidance was more effective than LSAPs at moving short-term Treasury yields, while LSAPs were more effective than forward guidance and the federal funds rate at moving longer-term Treasury and corporate bond yields. The effects of forward guidance announcements tend to die out over time, probably because those announcements have horizons of only a few quarters. In contrast, the effects of LSAP announcements seem to be completely persistent.