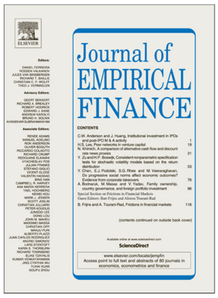
Accepted Manuscript



Relief Rallies after FOMC Announcements as a Resolution of Uncertainty

Chen Gu, Alexander Kurov, Marketa Halova Wolfe

PII: S0927-5398(18)30060-4
DOI: https://doi.org/10.1016/j.jempfin.2018.08.003
Reference: EMPFIN 1070

To appear in: *Journal of Empirical Finance*

Received date : 20 January 2018
Revised date : 15 August 2018
Accepted date : 28 August 2018

Please cite this article as: Gu C., Kurov A., Wolfe M.H., Relief Rallies after FOMC Announcements as a Resolution of Uncertainty. *Journal of Empirical Finance* (2018), https://doi.org/10.1016/j.jempfin.2018.08.003

Relief Rallies after FOMC Announcements as a Resolution of Uncertainty

Chen Gu, Alexander Kurov* and Marketa Halova Wolfe

First version: December 10, 2015
This version: September 6, 2018

Abstract

We find substantial positive average stock returns after FOMC announcements accompanied by the release of the Summary of Economic Projections (SEP) and press conference by the Fed Chair. Both SEPs and press conferences contain new information that moves financial markets. We show that several measures of uncertainty are significantly higher on days of FOMC announcements accompanied by SEP and press conference than on announcement days without SEP and press conference. Controlling for changes in uncertainty measured by VIX changes, the positive unconditional mean returns after the FOMC announcements with SEP and press conference disappear. We also find that stocks correlated with market uncertainty shocks have higher returns on days of FOMC meetings with SEP and press conference. These results suggest that the positive post-announcement stock market returns are related to resolution of uncertainty.

JEL classification: E44; E52; E58; G14; G18

Keywords: Summary of economic projections; Monetary policy; FOMC meetings; Communication; Stock returns; Uncertainty

---

*Corresponding author. Department of Finance, College of Business and Economics, West Virginia University, P.O. Box 6025, Morgantown, WV 26506, Tel: 304-293-7892, Fax: 304-293-3274, e-mail: alkurov@mail.wvu.edu.

We thank Gene Birz, Alexandros Kontonikas, Eric Olson, Alessio Sancetta, seminar participants at the 2016 meetings of the Financial Management Association, the associate editor and an anonymous referee for helpful comments and suggestions. Errors or omissions are our responsibility.

Chen Gu is an assistant professor of finance at Shanghai Business School, Research Center of Finance. Most of the work on this paper was completed when Chen Gu was a doctoral student in finance at West Virginia University.

Alexander Kurov is a professor of finance in the Department of Finance, West Virginia University, Morgantown, West Virginia.

Marketa Halova Wolfe is an assistant professor of economics in the Department of Economics, Skidmore College, Saratoga Springs, New York.