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# The Impact of Monetary Policy on Corporate Bonds under Regime Shifts<sup>1</sup>

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## Abstract

We study the effects of a conventional monetary expansion, quantitative easing, and the maturity extension program on corporate bond yields using impulse response functions obtained from flexible models with regimes. Using a three-state Markov switching model with time-homogeneous vector autoregressive (VAR) coefficients that emerges from a systematic model specification search, we find that unconventional policies may have been generally expected to decrease both corporate yields and spreads. However, even though the sign of the responses is the one expected by policymakers, the size of the estimated effects depends on the assumptions regarding the decline in long-term Treasury yields caused by unconventional policies, on which considerable uncertainty remains. Further tests based on yield spreads and a variable measuring inflation expectations show that, in the crisis regime, unconventional monetary policies do not produce any perverse effects on expected inflation. These results prove robust to adopting a framework that allows VAR coefficients to break, to imposing coefficient restrictions that increase parsimony, and to a range of different ordering schemes that identify shocks in alternative ways.

**Keywords:** Unconventional monetary policy, corporate bonds, term structure of Treasury yields, impulse response functions, Markov switching vector autoregressions.

**JEL codes:** G12, E43, C32.

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