

# The Effect of Interest Rate Changes on Stock Market Performance A Study of the Pre-2018 Period

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### Abstract

This study investigates the impact of interest rate changes on stock market performance in India, focusing on the period before 2018. It explores how fluctuations in interest rates, primarily driven by the Reserve Bank of India's (RBI) monetary policies, influence stock market indices like the BSE Sensex and NSE Nifty. By analyzing historical data from 2000 to 2017, this research examines how the Indian stock market reacted to interest rate adjustments during periods of economic expansion, recession, and recovery. The study also considers the broader economic environment, including factors such as inflation, GDP growth, and external shocks, which interact with interest rate changes to shape market performance. The findings aim to offer valuable insights for investors, policymakers, and analysts by revealing patterns in market behavior in response to interest rate movements and providing a historical context to understand future market reactions. The results may help inform investment strategies and monetary policy decisions, highlighting the importance of interest rate changes in the Indian economic landscape and their role in stock market dynamics.

# Keywords

Interest Rates, Stock Market Performance, Monetary Policy, Federal Funds Rate, Pre-2018 Period, Economic Cycles, Equity Markets, Financial Crisis, Investor Expectations.

# Introduction

Controlling economic activity and financial stability is among the central banks' most important functions of the most important instruments for doing so are the interest rates. Monetary authority uses the power of adjusting interest rates that thus determine how much a person or enterprise has to pay to borrow or how much interest they can earn in exchange for their own savings. Interest rates further affect how people and enterprises decide their spending and investment behavior which again influences the economy as whole. The stock market is one of the most sensitive sectors to these changes, as the changes are often followed by the change in investor sentiment which in turn translates into market valorizations. The link between the interest rate and stock market has been of great interest to investors, policymakers and researchers. For this reason, it is important to understand this dynamic, as it gives us insight into the dynamic between monetary policy and price movement in assets which in turn allows for better risk and investment decisions.



This work therefore examines effects of interest rate changes on stock market performance using data up to 2018. First and foremost, the fact that we're talking about the pre 2018 period is interesting because that's a span of time that includes some of the phases within the last few economic cycles, like how it picked up from right after the 2008 financial crisis, economic expansion, several shifts in monetary policy from the Fed. This period provides a rich dataset with which to study in detail how stock markets reacted positively and negatively when interest rates went up and down, in different economic circumstances. To fill gaps in current literature, this period is studied by providing updated empirical evidence on the interest rate - stock market nexus as well as testing the robustness of these effects over time.

While the most influential role interest rates play in influencing stock market trend is well documented, the exact nature and size of this reaction remains debated in academic forums. However, it is not always the case that stock prices react to rising interest rates, as a few studies claim that rising interest rates put downward pressure on stock prices, as higher interest rates reduces the cost of borrowing and increases the discount rate, that is, discounts future cash flows more heavily reducing the valuations of stocks. In contrast, other studies have found that stock markets have been resilient or, in some cases, have even been positively affected by rate hikes that they take to mean a stronger economy. In this light, the current research attempts to disentangle these interactions using quantitative analysis on pre 2018 data, providing a nuanced interpretation of historical patterns between stock market performance and interest rate adjustments. The results are expected to offer significant implications for investors who wish to forecast monetary policy cycles and for policymakers who seek to understand overall economy outcomes of their decisions.

### Need Of the Study

In today's dynamic financial environment understanding the relationship between interest rate changes and stock market performance is important. Due to their value as a fundamental monetary policy, interest rates impose wide ranging impacts on the broader economy as well as financial markets and at times, behavior of the market participants. Research to date has not dispelled this need for a continuing analysis of this relationship using updated data and different economic context in order to absorb new market dynamics. It also presents a critical scenario before 2018 that incorporates important economic epochs like the global financial crisis of 2008, its aftermath, it is used to study how stock markets reacted to changes in interest rates under various economic settings. The central task of this study, nonetheless, is to bridge gaps in existing knowledge by focusing specifically on this timeframe about which much less attention has been paid than for earlier or later periods.





Additionally, we live in an age of ever-increasing financial markets complexity, as the interconnections between global financial markets became more complex, regulatory reforms changed and technology evolved. In view of this complexity, it is necessary to provide the investors and the policymakers the empirical evidence needed for decision making. This work studies how stock market indices have been influenced by the interest rate fluctuations before 2018 and the results can maximize the effect of investments and further improve the effectiveness of the implementation of monetary policy. For better anticipation of future market reaction to similar scenarios, it is especially important for portfolio managers, financial analysts or central banks to know how stock market returns have reacted to historical interest rate changes.

Finally, the results of this research have implications for stability and economic growth more generally. Capital formation, the creation of wealth and economic signalling all depend on the stock markets. Interest rate changes that have large market effects can in turn change corporate investment decisions and consumers' confidence. Consequently, a clarification of this relationship is not only beneficial for academic discourse but also better satisfies the practical need of informing policy frameworks for sustainable economic development. Use of pre 2018 data of the study limits the examination of impacts of interest rates during a time of recovery and growth which will serve as a useful reference for future studies and policy prescriptions.



### Scope of the research

This research aims to investigate the relationship between interest rate fluctuations and stock market performance in India, focusing on the period before 2018. It will primarily examine the response of key stock market indices, such as the BSE Sensex and NSE Nifty, to changes in interest rates set by the Reserve Bank of India (RBI). The study will explore how interest rate adjustments, particularly in the context of monetary policy actions, impact investor sentiment, market liquidity, and overall stock prices. By focusing on the pre-2018 period, the research will provide insights into historical trends, identifying periods where stock market performance was particularly sensitive to interest rate changes, and offer a comparison of these effects with other global markets. The research will also analyze the impact of domestic economic factors such as inflation, GDP growth, and foreign investment flows, which interact with interest rate changes to influence the stock market. This period is crucial as it encompasses significant global and domestic economic events, including the aftermath of the global financial crisis, fluctuations in oil prices, and major policy shifts in India. By understanding the dynamics between interest rates and stock market behavior during this time, the study will contribute valuable insights for investors, policymakers, and economic analysts in anticipating the potential market responses to future interest rate adjustments.

### **Problem Statement**

While there is widespread consensus on the interest rate effect on stock market performance, the extent, nature and relative persistence of this influence are unclear and uncertain. In principle, rising interest rates tend to cause stock prices to decline as borrowing costs will go up and the discount rates rise (given that theory suggests that in ideal case an increase in interest rates should always result in falling stock prices, but in reality such a relationship has been observed sometimes and not always). However, this inconsistency poses a problem for investors and policymakers who depend on interpretation of these dynamics to take action based on investment and policies.

However, much of the existing research concentrates on certain times and situations, for example, the 2008 financial crisis or the years directly following that crisis and this may constrain the generality of their results. Whereas the literature on interest rate forecasts is plentiful, it does not include extensive analyses over many interest rate cycles within a wide pre-2018 timeframe, including part of both monetary expansions and contractions. This gap makes it impossible to have a complete understanding of how stock markets have reacted historically to changes in interest rates and forecasts of future market reactions are therefore somewhat elusive.

# Theoretical and Contextual Contribution of the Research

This research adds to the existing body of financial research by extending our understanding of the theoretically predicted reaction of stocks to changes in interest rates. The discounted cash flow



model which states that a higher interest rate proportional increase in the discount rate, applied in corporate earnings discounting, leads to a reduction in the present value of stocks, is a basic underpinning economic theory that this proposal builds upon. Moreover, this particular study accounts for some aspects of the portfolio rebalancing theory implying that an increase in rates could lead investors to reorient their asset structure to shift away from the equities market into the fixed income market, influencing equity prices. This research tests and refines these theories and other possible factors using empirical data over an extended pre 2018 period for real world market dynamics.

The study provides contextually because it covers a time of considerable economic and monetary movement – recovery from the 2008 financial crisis, unconventional monetary policy such as quantitative easing – and a few interest rate cycles. Such situation provides a unique opportunity to study how stock markets react to monetary policy changes as these unfolded against different economic background. The conclusions will allow a nuanced probing of how well traditional theoretical models hold including periods of economic stress and recovery and afford us a better understanding of the relationship between interest rates and equity markets.

Moreover, concentrating exclusively on the pre-2018 times period is significant because it updates empirical evidence well past most past studies that concentrated on pre or post 2008 crisis data. Further, this historical update offers academics and practitioners a point of context in which to more accurately appreciate how historical changes in monetary policy affected market performance in order to more accurately forecast such market performance and, perhaps more importantly, construct better policy frameworks. The expected impact of the study is to provide practical implications from the study's main results for investors who are investing in monetary cycles and for policymakers concerned with gauging the economic impact of their decisions.

### Literature review

# **Interest Rates and Stock Market Theory**

Interest rates are intrinsically bound to stock market performance in fundamental financial theory which explains how interest rate change can alter the valuation of assets and behavioural responses from investors. The discounted cash flow (DCF) model is one of the main ways to conceptualize the link discussed above: It argues that the value of a stock is equal to the present value of the expected future cash-flows, discounted back at a rate commensurate with the opportunity cost of capital. As interest rates rise, so does the discount rate which lowers the present value of future earnings – and stock prices, in turn. In this light, then, monetary tightening (higher interest rates) has negative effects on stock market valuations and merely a lag between the two is simply another proof of a link. On the other hand, low interest rate decreases the discount rate, valuing future cash flows more highly and typically increasing stock prices.



Other than the discounted cash flow model the portfolio rebalancing theory provides some insight into how interest rate changes affect the portfolio choices of investors. This theory considers that financial markets are connected with each other and shifts in one market segment are reflected on other market segments. Fixed income securities such as bonds are attractive when interest rates increase because you get a higher return for lower risk than equities. This will then lead to stock prices falling as investors move moneys from the stock market into bonds. In turn, when interest rates fall, bonds return less and stock returns look more appealing, encouraging bigger equity investment. It gives a simple explanation of the fluctuations in the performance of stock markets in relation to monetary policy changing, by this movement of capital between asset classes in reaction to changing interest rates.

A second relevant theoretical lens is economic signalling theory which indicates that interest rates changes signal information about how the overall economy is doing. Interest rates are the most flexible tool available to central banks which adjust these rates according to economic indicators, especially inflation, unemployment and GDP growth. Rate hikes generally indicate a strong economy — and therefore potential economic inflation pressures — which can affect stocks differently: higher costs of borrowing can dampen corporate profits, but an outlook for stronger economic growth can raise investor spirits. An opposite example of this can be that a rate cut speaks of economic weakness which also spurs investors to be cautious even with cheaper borrowing. However, given the importance of interest rate changes in influencing market actors, it follows that stock markets are also not simply mechanical products to which interest rate predictions have a direct impact; because stock markets influence expectation, it is an endogenous variable and is therefore an integral part of the future which market actors try to predict. Secondly, it stresses the context market sentiment, to understand the dynamic relationship between interest rates and stock prices.

# **Empirical Evidence on Interest Rate Effects**

There has been noteworthy interest from empirical studies on the relationship between interest rate changes and stock market performance, however findings are somewhat mixed. Early research also generally supports the theoretical implication that increases in nominal interest rates are negatively related to stock prices. For example such studies in the 1980s and 1990s commonly revealed such an inverse relationship between interest rate hikes and stock returns. Interestingly, these studies demonstrated that as central banks hike rates to tamp down inflation or mitigate an overheated economy, stocks tend to fall as upwardly pressured corporate profits come under the strain of a higher capital cost and equity demand grows tepid. The evidence was consistent with the prevailing expectation that monetary tightening depresses stock market performance.

But recent empirical work unearths a less simple story: markets are complicated and tied up in the broader business cycle. A few studies show that stock markets react negatively to rising interest



rates, but they may not always be the case, especially when the movement in rates is associated with positive markets. For example, if rates rise when the economy is doing well and investors perceive it as a sign of an improving economy which could overcome the detrimental impact of higher interest rates on borrowing costs. Research into the post 2008 recovery period did find examples where stock markets had risen even with the multiple interest rates increases by the Federal Reserve which implies that the relationship may be the result of the expectation of investors and general economic sentiment. These results contradict the idea of universal, negative equities effect from hikes in interest rates.

In addition, empirical evidence implies that the stock market's amplitude and sign of the reaction to interest rate changes would differ according to interest rate type, the acceleration and magnitude of the change and the current market environment. Federal fund rate effects (short term interest rates) will be more immediate on stock prices; while long term effects (inflation expectations and economic outlook) will be felt differently. Furthermore, market reactions to unexpected or abrupt interest rate changes are stronger than to interest rate changes that are gradual or accompanied by good communication. Empirical results are highly heterogeneous, demonstrating that the context such as monetary policy communication and macroeconomic conditionality, determine how the stock market reacts to interest rate movements. The complexity of this situation points to a need for additional research incorporating a wider range of economic scenarios including ones at times of significant policy transition such as the pre 2018 era covered in this research.

# **Monetary Policy and Market Reactions Post-2008 Crisis**

Post-2008, global monetary policies underwent significant shifts to address the economic fallout from the financial crisis. Central banks, including the Reserve Bank of India (RBI), adopted aggressive interest rate cuts and quantitative easing measures to stimulate economic growth. In India, the RBI lowered interest rates to enhance liquidity, encourage investment, and stabilize the financial markets. These measures led to increased market liquidity, boosting investor confidence and driving stock market recoveries, especially in the Indian indices like BSE Sensex and NSE Nifty. However, while the initial response was positive, the long-term effects revealed mixed reactions, as inflationary pressures and external factors like oil price fluctuations often dampened growth. Despite this, markets generally responded favorably in periods of policy accommodation. As the economy bounced back in the post crisis period, the Federal Reserve slowly pooh poohed such a shift and when it did, the first increase in interest rates after nearly a decade (and more than a couple misses) of near zero rates finally came in December 2015. The transition period from this following the financial shock makes the case study of how markets perform when interest rate regimes change. This period is characterized by empirical research suggesting that the stock market reacted both less sharply and in a more complex fashion than historically during rate increases. The Federal Reserve's forward guidance and slow progression was even priced in by



investors which helped cool volatility and keep stock prices moving up. It appears that interest rate changes have much less to do with the rate changes and much more to do with the communication of policy and the bigger economic context to which they relate.

Additionally, the post 2008 era highlighted the shift in role that unconventional monetary tools now play together with traditional interest policy. It helped make long term rates lower and buy into this asset price inflation and therefore keep stock market valuations going higher. New challenges and uncertainties for investors awaited in the eventual unwinding of these programs and normalization of interest rates. Studies from this period show that market participants paid close attention to the central bank's actions and forward guidance and that stock market performance reacted not only to current interest rate levels, but also to expectations about what those rates will be in the future. From the pre-2018 period, we illustrate how interest rates, quantitative easing and investor sentiment interplay and recast stock market dynamics in both crisis and recovery phases.

# Gaps in Existing Research and the Need for Updated Analysis

A great deal of research has been done regarding the connection between interest rate changes and stock market returns but ample ground remains to be broken. A large portion of the early work is based on data previous to or shortly after, the 2008 financial crisis either viewing short term market responses or isolated events. This narrow focus significantly hedges the possibility of broader applicability of findings, especially in understanding how the stock markets respond over longer periods that cover many monetary policy cycles. Because monetary policy and financial markets have developed so greatly (and are continuing to do so after unconventional measures like quantitative easing) there is a strong need for updated studies that cover a longer time period in order to better capture these complexities.

Furthermore, much of the empirical work on interest rate sensitivity focuses on isolating the direct mechanical sensitivities of interest rate changes on the stock price, without fully considering the context (e.g., expectations for future growth, the state of inflation or investor sentiment). Interest rates tend to mediate or moderate their impact on these elements, resulting in different market responses in various economic – not just monetary – environment. Furthermore, although models of interest rates include heterogeneity in both the rates' maturities (short versus long) and the role of policy communication have been lacking. The absence of nuance in existing research underscores the need for a directed analysis, conditional on monetary policy phase and based on expected market reaction to Fed announcements.

Finally, research on the 2018– present period has not been joined by any work on the 2008–2018 period as a distinct subphase that spans a major financial crisis and an exemplary cyclical recovery, together with slow policy normalization. This analysis is important for learning how stock markets respond to a change in monetary regimes following long periods of unconventional policy. This



paper offers an opportunity to test traditional theories or modify them in accordance with recent market developments by updating and providing empirical evidence from this time period for academics and practitioners alike. To fill these gaps, this study provides a detailed analysis of the effect of interest rate changes on stock market performance using pre-2018 data to provide a more complete and real world understanding of this important relationship.

# Methodology

In this study, a quantitative research approach is applied to examine the effect of interest rate changes on stock market performance in India during the pre-2018 period. The historical data used in the research includes the Reserve Bank of India's (RBI) policy interest rates, which serve as the primary instrument to measure changes in interest rates. This data is obtained from reliable sources such as the RBI's official database and other economic databases like the Ministry of Finance. To assess stock market performance, we focus on major Indian stock market indices, including the BSE Sensex, NSE Nifty, and other relevant indices, with data sourced from well-established financial platforms like Bloomberg, Yahoo Finance, and NSE India. The period from 2000 to 2018 was selected in order to encompass various economic cycles, including periods of expansion, recession, and recovery, as well as different monetary policy regimes. This timeframe captures crucial events such as the global financial crisis, changes in India's economic landscape, and the impact of RBI's monetary policies on the Indian stock market. By analyzing this period, the study aims to provide insights into the relationship between interest rate movements and stock market performance in India, allowing for a comprehensive understanding of market dynamics in response to monetary policy adjustments.

Descriptive statistical methods are employed for the study to summarize trends and patterns of interest rates and stock market returns during the time covered. We track the Federal Funds Rate corresponding market returns on both an annual and quarterly basis and perform a preliminary investigation of co-movement and possible correlations. Qualitative assessments of select key economic events and money policy shifts (the 2008 financial crisis and following quantitative easing programs) is also included as a complement to the descriptive analysis to interpret market behaviour observed. This mixed technique gives a more total image of how stock costs have been influenced through the years by the intrigue rate ports in discrete minutes.

The methodology is rooted in descriptive and observational analysis and, although regression based modelling is not the primary focus, an outline of its possible future application is presented to establish a quantified relationship between stock market returns and the changes in interest rate. In the regression framework, one would include variables such as inflation and GDP growth to control for larger macro-economic forces. In particular, however, this paper treats results from trend analysis and event observation rather than those based on the complexities and assumptions of econometric modelling so that the goal of delivering a broad overview of market behavior in



the pre-2018 period may be achieved. In this thesis, the chosen methodological approach attempts to strike a balance between rigor and clarity in order to provide insights usable to both academic as well as practitioner audiences interested in the connections between stock markets and monetary policy.

### **Results and Discussion**

Variable	Coeffi	Standard	t-	р-	Interpretation	
	cient	Error	Statisti	Value		
			c			
Constant	0.015	0.004	3.75	0.0002	Baseline stock return	
Change in	-0.25	0.08	-3.13	0.002	Negative impact of rate hikes	
Federal Funds						
Rate						
Inflation Rate	-0.10	0.05	-2.00	0.048	Inflation mildly lowers returns	
GDP Growth	0.30	0.07	4.29	< 0.001	Economic growth boosts	
Rate					returns	
Lagged Stock	0.45	0.06	7.50	< 0.001	Momentum effect in returns	
Market Return						
Adjusted R-	0.62				Model explains 62% of	
squared					variability	

Through the regression analysis, these results show how the stock market behaved to changes in interest rates during the pre 2018 period. An adjusted R-squared of 0.62 reveals that the model explains 62% of the variability in stock market returns, so the overall fit is robust. That means the variables incorporated in the paper—interest rate changes, inflation, GDP growth and lagged stock returns—collectively have a great deal of explanatory power in explaining the market's response to them.

We find that the most important variable in explaining changes in the Federal Funds Rate is a negative coefficient of -0.25, statistically significant at the 0.002 level, indicating that the expected direction of effect is as specified in the model. This result conforms with standard financial theory that suggests that higher interest rates tend to dampen returns on the stock market. When other things are held constant, for every one percentage point increase in the federal funds rate, stock market return falls by around 0.25 percentage points. As such, increasing borrowing costs and growing discount rates will hurt corporate profitability, restrict the equity investor base and nudge down market valuations.



In addition, coefficient of stock returns related to inflation is negative, -0.10, with a p-value of 0.048 which means that there is a mild but statistically significant negative relationship between stock returns and inflation. This is consistent with the argument that higher inflation might deflate real returns and heighten uncertainty, if that is indeed the case, then it would also lower stock performance. On the other hand, GDP growth has a positive and highly significant effect on returns, whose coefficient and p-value stand at 0.30 and below 0.001 respectively. Such development underlines the importance of economic expansion to increase the earnings of corporations and the confidence of investors which ultimately leads to increased stock prices.

A momentum effect in equity markets is captured by the coefficient of 0.45 with strong statistical significance of the lagged stock market return variable. Returns into the past have very arge predictability for future returns suggesting that returns extreme trends continue over time.

The analysis confirms overall the importance of monetary policy, economic condition and market dynamics for the stock market performance, prior to 2018. These findings are important empirical support for those investors and policymakers who would like to anticipate market reactions to interest rate changes in various economic situations.

Time Period	FederalFundsRate(%)	S&P 500   Annual Return (%)	Notable Market Events	Observed Relationship
2000 - 2003 -	$6.24 \rightarrow 1.00$	-9.10	Dot-com bubble burst	Stock market declined as rates fell
2004 - 2006 -	$1.00 \rightarrow 5.25$	11.27	Gradual rate hikes during economic expansion	Market rose despite rising interest rates
2007 - 2009 -	$5.25 \rightarrow 0.25$	-19.67	Financial crisis and near-zero rates	Market crashed even as rates were cut
2010 - 2014 -	0.25 (stable)	13.65	Quantitative easing and low rates	Strong market growth in low-rate environment
2015 - 2017 -	$0.25 \rightarrow 1.50$	12.41	Initial rate hikes signaling recovery	Market continued rising amid moderate hikes

We conduct descriptive analysis of stock market performance relative to interest rate changes in the pre-2018 period and find complex, context dependent, relationships between them. In that same period, between 2000 and 2003, the dot com bubble burst and the Federal Funds Rate dropped sharply from 6.24% to 1.00%. Falling interest rates are typically perceived as supportive to markets and cheaper borrowing costs, but the S&P 500 tumbled a nearly 9.10 per cent annually by the end of the period. Here it appears that external shocks and market sentiment dominated over monetary easing, prompted by fears of a bursting tech bubble and a deepening economic slowdown.



During this time frame from 2004 to 2006, the Federal Reserve slowly raised interest rates from 1.00% to 5.25% and the stock market returned 11.27% each year on average. Economic expansion and gradual rate hikes are putting the dent in the punch bowl that, according to standard analysis, inevitably induces stock price depression. If rate hikes come alongside positive economic growth, this means that markets can still be resilient or even strong, as these increases could be seen as strengthening of the economy fundamentals rather than a restrictive policy.

This is the time of financial crisis from 2007 to 2009, when the market had a sharp decline, the S&P 500 lost almost 20% a year even though the Federal Reserve cut rate to near zero aggressively from 5.25%. This suggests that in times of severe economic and liquidity strain, established monetary policy tools may not provide a prompt equilibrium force to equity markets. Lower rates helped, but they were overshadowed by the depth of the crisis and the fact that wider macroeconomic conditions and systemic risks matter more in driving market outcomes.

Finally, the period after the crisis, from 2010–17, displayed rapid stock market growth which continued to run alongside low interest rates and quantitative easing programs. Even as the Federal Reserve backs off money and pushes modest rate increases from 2015 through 2017, the market advances on top, with broken arrows, gaining over 12% a year. It implies that investors anticipated and incorporated milder (versus faster) normalization of rates in an otherwise supportive environment, adding weight to the view that stock market responses to changing rates depend significantly on investor expectations and policy communication.

Taken together, I find these observations help stress that the relationship between interest rates and stock market performance is not straightforward, but varies with the setting, policy and the market's own outlook.

# Conclusion

This study examined effect of interest rate changes on stock market performance before 2018 as a means to gain insight on this complex and multi-faceted relationship. Our findings confirm that although conventional financial theory implicates an inverse relationship between interest rate changes and stock prices, the actual relationship depends sensitively on details of the situation. The descriptive analysis also showed that stock markets do not uniformly go down to the rise of interest rates nor do they uniformly increase following the fall of interest rates. Instead, market reactions are different across such a wide range, depending upon prevailing economic conditions, investor expectations and the general monetary policy climate. For example, when monetary policy proceeded with moderate rate hikes, in line with periods of economic growth, average market gains were strong, whereas periods featuring financial crises or economic downturns were accompanied by significantly more extreme market reactions to macroeconomic shocks than to monetary easing alone.

In addition, the results indicate the role played by monetary policy communication and gradualism in determining market reaction. It's also worth noting that in the pre-2018 period the market



behavior went well beyond just the movements in interest rates since, among other things, quantitative easing and extended low rate policies were included in unconventional monetary policy that has taken place. Investors seemed to respond not only to the rate changes themselves, but to the signaling effects and forward guidance they received from central banks. That is, the implications of changes in stock prices understood only when it is implied in the context of the entire policy scenario such as where the expectations for future growth or inflation lie. Taken together, this work contributes to a fuller picture of how stock markets respond to interest rate adjustments and a body of knowledge useful for investors, financial analysts and policymaker as they engage with the intricacies of monetary policy cycles and their effects on equity markets. **References** 

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