

Post-COVID Stock Market Reactions to FOMC Announcements

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Abstract: This paper studies the impact of post-COVID Federal Reserve's monetary policy announcements on stock market returns and volatility, for the period of January 2020 to June 2024. We manually collected data from the FOMC meeting statements to identify the sentiment for each meeting – whether it is hawkish or dovish, and also whether the interest rates are raised, cut, or maintained the same. Contrary to the conventional view, the market did not respond negatively on the hawkish announcement days on average, with the average daily return being positive (+0.40%) on those days. Likewise, the market did not respond positively on the dovish announcement days on average, with the average daily return being negative (-0.71%), due to the concurrent news of Coronavirus outbreak. We argue that the market participants may have over-reacted to the rate-increase related news before the rate-increase and hawkish announcement days, during the year 2022 and 2023. We also show that the market volatility reflected in VIX tends to be higher surrounding rate-increase or rate-cut announcements, compared to the days surrounding the no-rate change announcements by the Fed.

Keywords: stock price, stock return, FOMC, interest rates, monetary policy, COVID

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