

REASSESSING THE EFFECTIVENESS AND

# TRANSMISSION OF MONETARY POLICY

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Fig. 1: 10-Year Benchmark Yields during March 2020

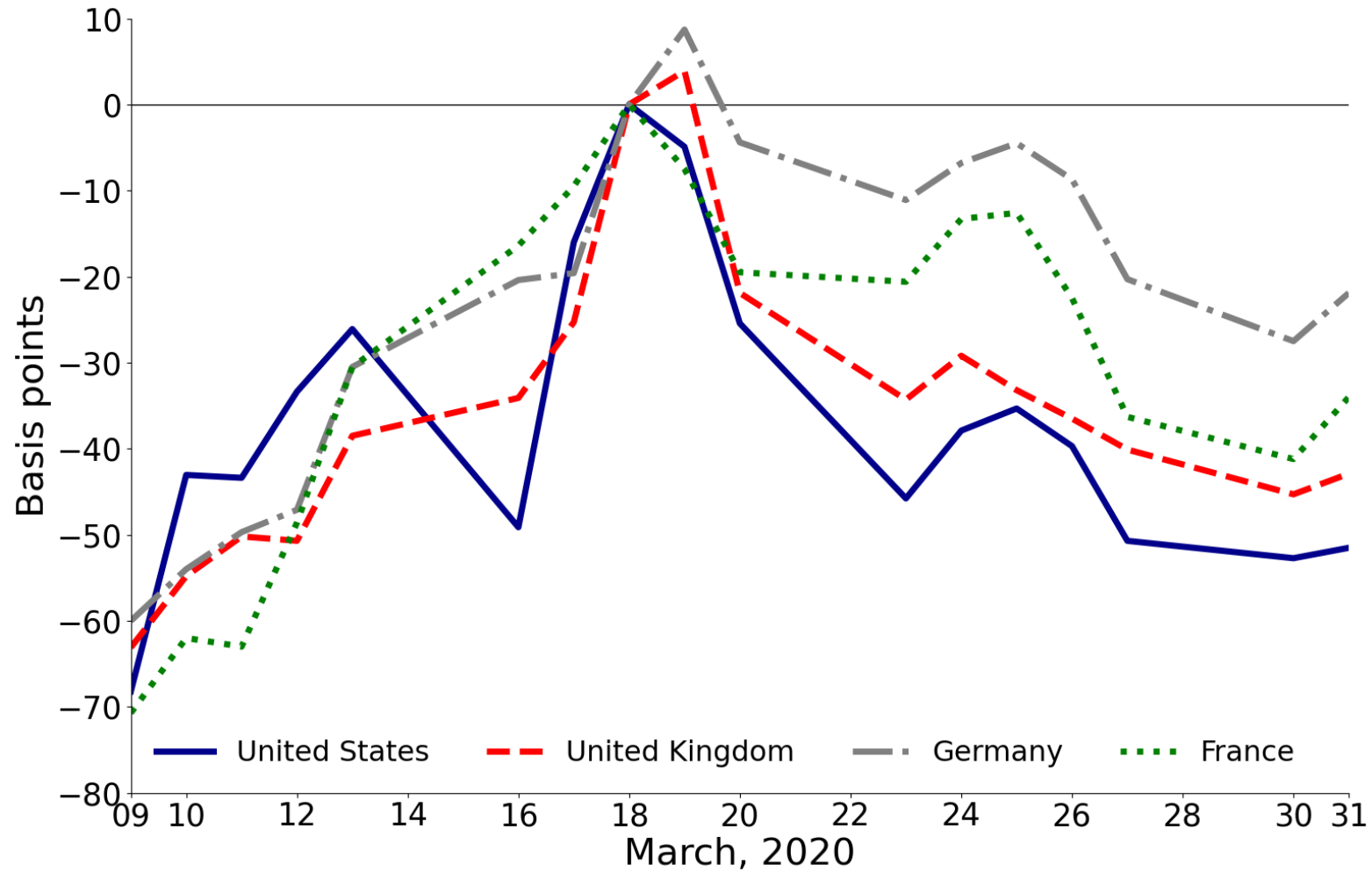


Fig. 2: Cumulative Revisions in Consensus Forecasts for U.S. Budget

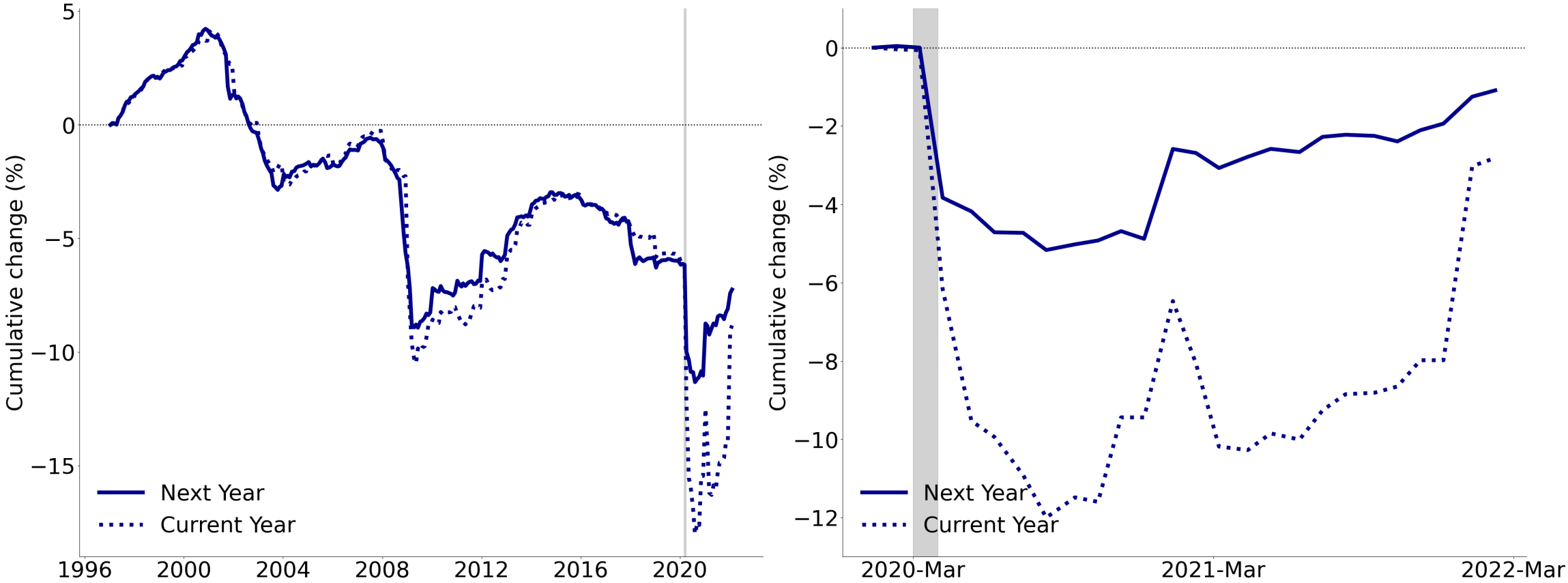


Fig. 3: U.S. Treasury Returns and Changes in U.S. Treasury Yields

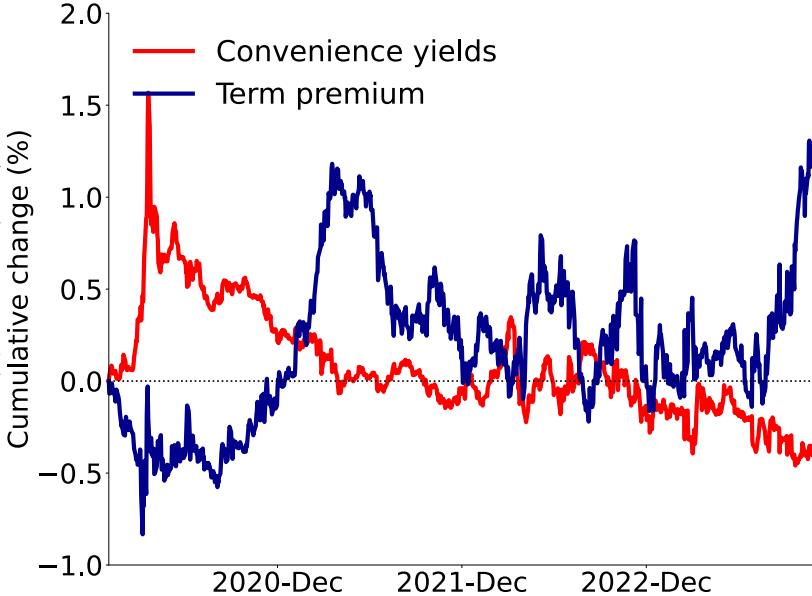
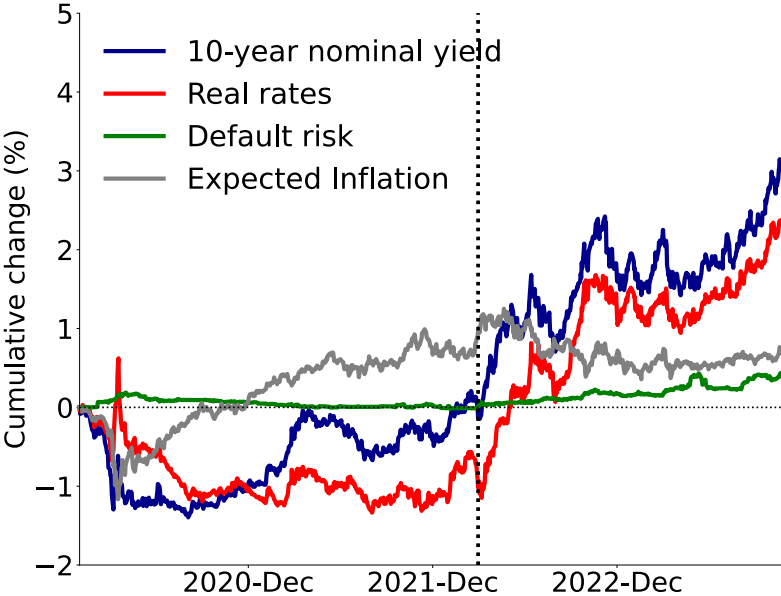
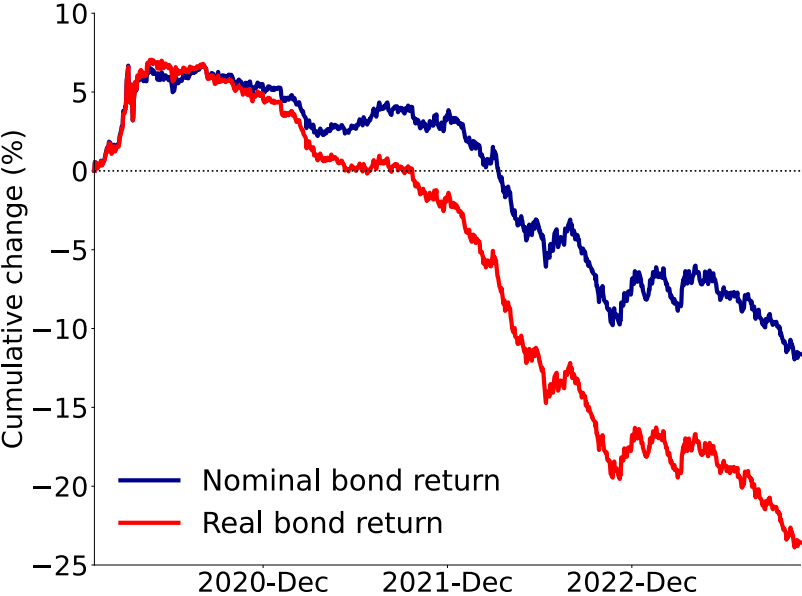


Table 1: U.S. Treasury Returns and Changes in U.S. Treasury Yields

A. Cumulative changes from February 28, 2020, to October 30, 2023			
		Break in March of 2022	
	February 28 2020 to October 30 2023 (1)	February 28 2020 to March 31 2022 (2)	March 31 2022 to October 30 2023 (3)
Nominal bond returns	-14.56	-3.93	-10.48
Real bond returns	-26.35	-11.12	-15.11
10-year nominal yield	3.81	0.74	3.07
Real yield	2.71	-0.54	3.25
Expected inflation	1.04	1.27	-0.23
Convenience yield	-0.68	-0.15	-0.53
Term premium	1.70	0.50	1.20



Table 2: Cumulative Returns and Changes in Yields in other Countries

	February 28 2020 to October 30 2023 (1)	Break in March of 2022	
		February 28 2020 to March 31 2022 (2)	March 31 2022 to October 30 2023 (3)
A. United Kingdom			
Real Bond Return	-43.57	-14.07	-34.32
10-year nominal yield	4.82	1.74	3.08
Real yield	3.58	-0.19	3.78
Expected inflation	0.50	1.19	-0.69
B. Germany			
Real Bond Return	-32.24	-12.13	-22.89
10-year nominal yield	3.12	0.51	2.61
Real yield	1.92	-0.48	2.40
Expected inflation	1.35	1.31	0.04
C. France			
Real Bond Return	-30.94	-11.08	-22.33
10-year nominal yield	4.00	1.25	2.75
Real yield	2.12	-0.89	3.00
Expected inflation	1.79	1.31	0.48



Fig. 4: Convenience Yield on U.S. Treasurys

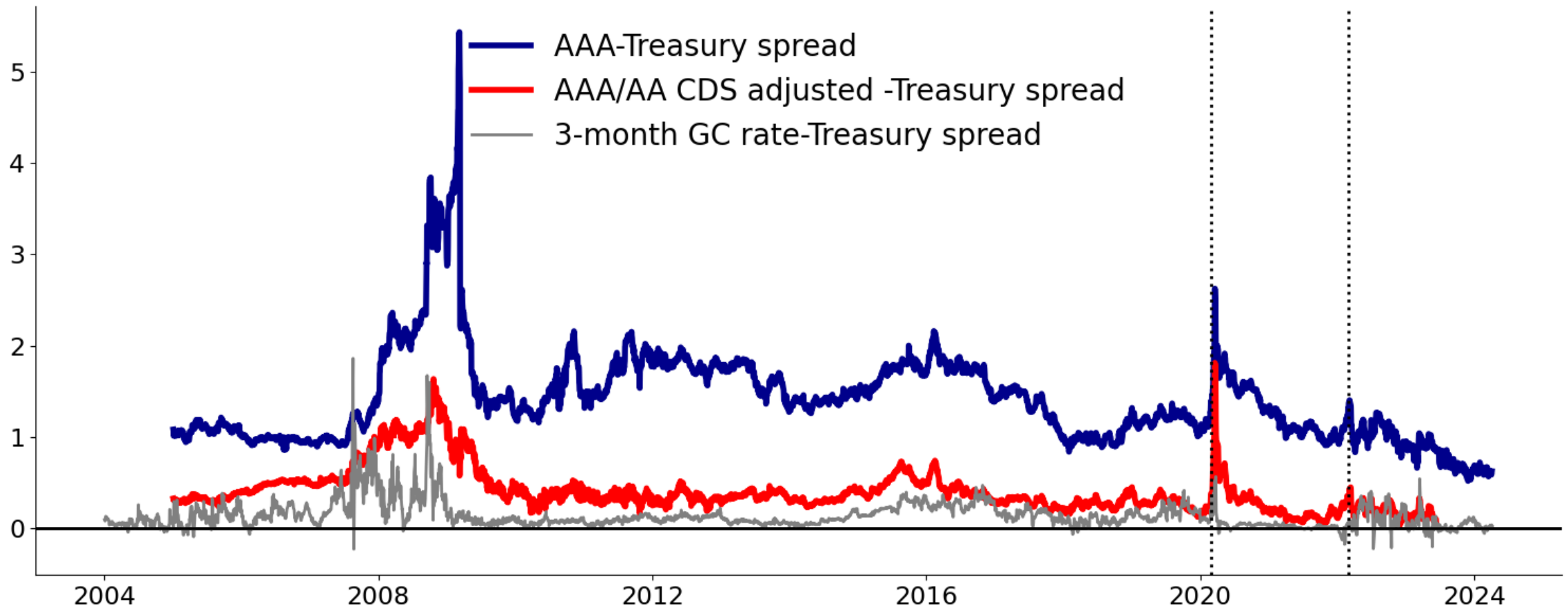
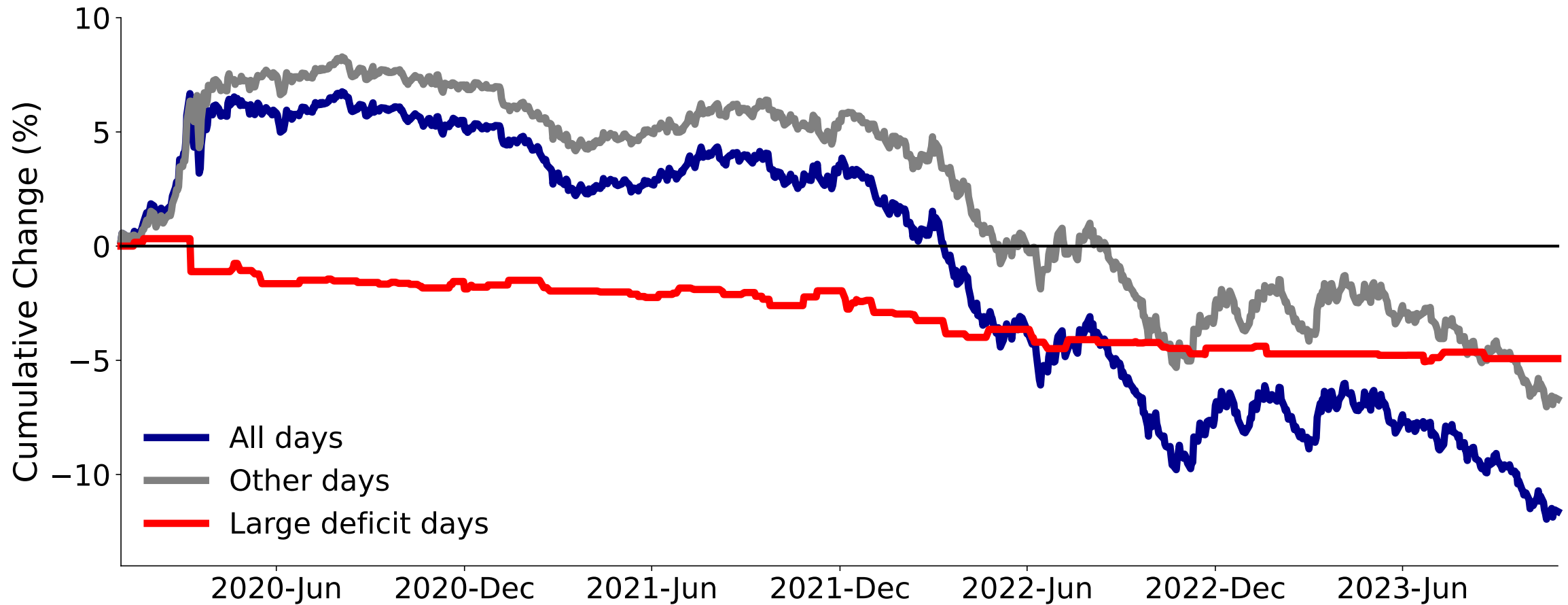


Fig. 5: Cumulative Change in the Valuation of all U.S. Treasurys



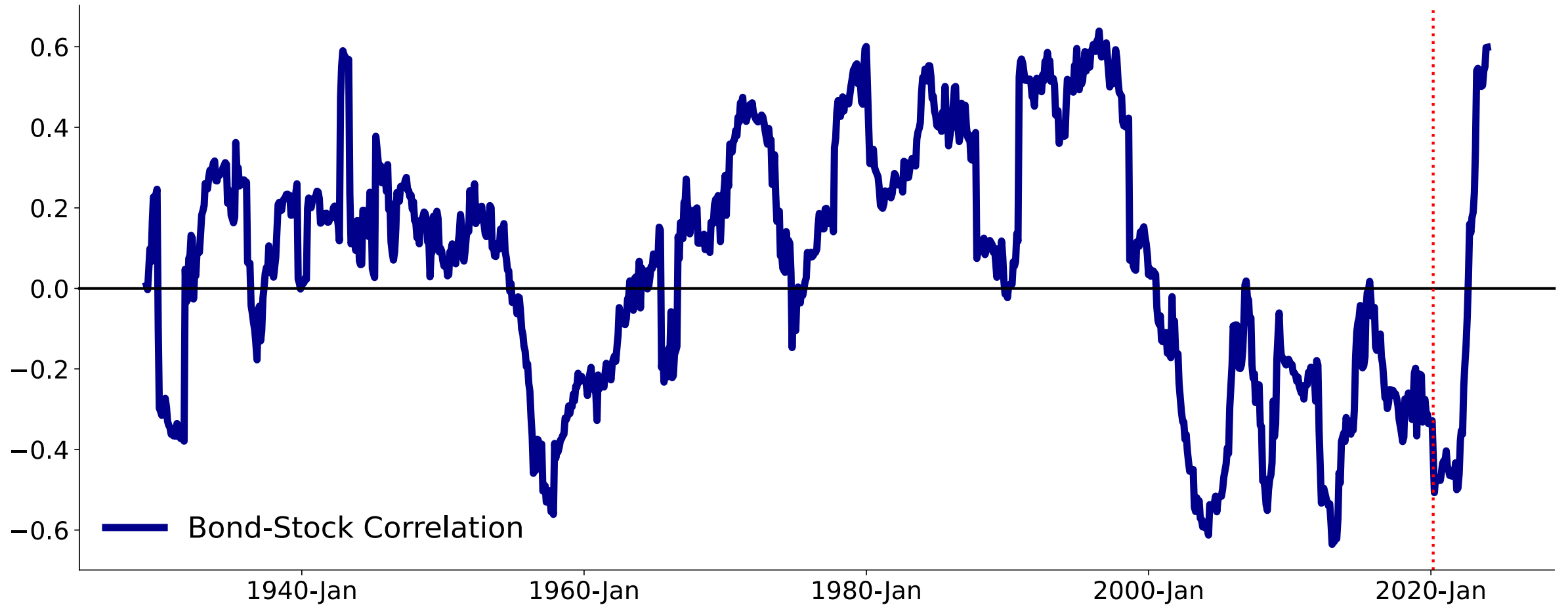


# Table 3: Changes in U.S. Treasury Values on Large Deficit Days

	All days	Other days	Deficit days	Deficit days and controlling for other news		
	(1)	(2)	(3)	(4)	(5)	(6)
Mean bps	-1.58	-0.54	<b>-4.10</b>	-4.03	-6.65	-8.34
<i>t</i> -statistic	[-1.98]	[-0.54]	<b>[-2.81]</b>	[-2.58]	[-2.84]	[-2.09]
<i>p</i> -value	–	–	<b>(0.03)</b>	(0.05)	(0.04)	(0.04)
Cumulative change in %	-14.55	-3.55	<b>-11.00</b>	-9.52	-5.25	-3.67
<i>p</i> -value	–	–	<b>(0.03)</b>	(0.05)	(0.04)	(0.04)
Observations	922	654	<b>268</b>	236	79	44
				Controls		
FOMC days			<b>No</b>	Yes	Yes	Yes
Large Macro News			<b>No</b>	No	Yes	Yes
Small Macro News			<b>No</b>	No	No	Yes



Fig. 6: U.S. Bond-Stock Correlation



<b>Regime</b>	<b>Safe</b>	<b>Risky</b>
Leading authority?	Central Bank	Government
Who bears $g$ risk?	Taxpayers	Bondholders
Large $g$ ↗ fully funded by future $\tau$	Yes	No
Market Beta	Zero	Positive
Persistent Deficits?	No	Yes
<b>Bond Market Response to Fiscal News</b>		
Treasury Yields (ex CY)	No	Yes ✓
Term Premia	No	Yes ✓
Long-run Expected Inflation	No	Yes ✓
Narrow CY	Yes	Yes ✓
Broad CY	Yes	Yes ✓
<b>Bond Market Response in March of 2020</b>		
<i>Anticipated</i>		
Stock-Bond Correlation Yields	Flight to Safety	Mark-to-Market
	Negative ↘	Positive ✓ ↗
<i>Actual: Yields ↗</i>		
Interpretation	Market Dysfunction	Market functioning
Drivers	Dash for Cash	Flight from Maturity ✓
Causes	Market Micro-structure	Macro
	Plumbing	Fiscal News
<b>Large Scale Asset Purchases in March of 2020</b>		
Objective	Liquidity Provision	Price Support ✓
Price Discovery for Taxpayers	Improve	Impair
	Create Value	Destroy Value ✓

# Taxonomy of Government Debt Regimes

