FOMC Meetings and the Chinese Stock Market: Fundamental Shocks or Triggers for Investor Action?*

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(Preliminary and Incomplete)

Abstract

Unlike major global equity markets that earn a positive return premium prior to Federal Open Market Committee (FOMC) meetings, the Chinese stock market experiences negative returns ahead of FOMC announcements, followed by a rebound, producing a V-shaped return pattern. This result is surprising given China's tight capital controls and limited foreign investor participation. We show that heightened uncertainty surrounding FOMC meetings depresses Chinese real activities and lowers expected corporate cash flows, leading to lower stock returns. The effect is significantly stronger for firms with weaker corporate governance. In addition, institutional trading intensifies around FOMC meetings, amplifying return dynamics. Overall, our findings reveal an important international transmission of U.S. monetary policy through uncertainty and cash-flow channels, even in a market with limited financial openness.

Keywords: Global financial cycle, pre-FOMC drift, monetary policy transmission

JEL Classification: F36, G15

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1 Introduction

The U.S. Federal Reserve is the most influential central bank in the global economy. A large literature documents its central role in shaping global macroeconomic conditions and financial markets (e.g., Rey 2015; Miranda-Agrippino and Rey 2020). This influence is hardly surprising given the dollar-centered international monetary system and the high-degree of integration in financial markets worldwide, which facilitates the rapid transmission of U.S. originated shocks (e.g., in interest rates) across borders. Consistent with this view, prior studies show that both U.S. and developed international equity markets respond strongly in advance of Federal Open Market Committee (FOMC) announcements of U.S. monetary policy decisions (Lucca and Moench 2015; Cieslak et al. 2019). Yet it remains an open question whether—and through which channels—U.S. monetary policy affects financial markets in large emerging economies.

In this paper, we focus on China, which has the world's largest economy in PPP terms. On the one hand, China has the largest emerging financial markets operating under stringent capital controls, which should, in principle, insulate its financial system from external monetary shocks. On the other hand, China is deeply integrated into the global economy, and U.S. monetary policy may affect Chinese firms through its impact on global demand, trade, and other real economic activities. To the extent that U.S. policy actions influence global fundamentals, China's stock market may respond even in the absence of full financial openness. Moreover, China's equity market offers limited domestic investment alternatives, and retail investors account for a substantial share of trading activities. In such an environment, FOMC announcements may serve as focal events around which sophisticated institutional investors process and trade on global information flows and its potential impact on domestic firms. We empirically test these hypotheses and quantify the transmission of U.S. monetary policy to Chinese equity returns.

We begin by documenting a novel fact about the returns of China's domestic stock market (A-share market) over the FOMC monetary policy announcement cycle. Using daily data from 2007 to 2024, we align each A-share market trading day relative to scheduled FOMC announcements and compute average cumulative market returns. We uncover a pronounced and robust "V-shaped" pattern around FOMC dates: Chinese stocks begin to decline eight trading days before the announcement, continue to fall until four trading days afterward,

and then recover over the subsequent one and a half weeks. On average, the market loses approximately 1.4% between day −8 and day +4, and recovers a similar magnitude by day +12. Because most FOMC announcements occur on Thursdays in China, the decline typically begins on the preceding Monday and persists through the following Wednesday.

This FOMC-cycle pattern in China stands in sharp contrast to the pre-FOMC drift documented for the U. S. and other developed markets. Lucca and Moench (2015) show that the S&P 500 earns large positive returns in the 24 hours preceding scheduled FOMC announcements, accounting for a substantial share of the annual equity premium, with similar pre-announcement gains observed in many foreign markets. Cieslak et al. (2019) further document an alternating weekly pattern in U.S. and international equity returns over the FOMC cycle, with elevated returns in announcement weeks and subsequent even weeks. In China's A-share market, by contrast, we find (i) a *negative*, rather than positive, pre-announcement drift; (ii) a much *longer* window of systematic return movements—approximately two and a half weeks of decline followed by one and a half weeks of recovery; and (iii) a single dominant V-shaped pattern rather than the alternating high–low weekly structure documented for the U.S.. These differences imply that, unlike in the U.S., the FOMC announcement window in China is a period of strongly negative and economically large expected returns.

We show that this pattern is not a generic response of Chinese stocks to policy announcements. Pan and Peng (2023) document that the Shanghai Composite Index experiences a positive drift in the days leading up to top (Chinese) government meetings, generating outsized returns relative to the market's low long-run average. Replicating and extending their analysis, we compare A-share market's stock returns around FOMC announcements with returns around major domestic government meetings. In both cases, returns are negative during the initial "uncertainty accumulation" phase, consistent with the framework of Hu et al. (2022) and Pan and Peng (2023). However, only domestic meetings exhibit an "uncertainty resolution" phase characterized by a positive pre-event drift: A-share indices rally sharply in the two days preceding top government meetings but continue to decline both before and after FOMC announcements. Thus, Chinese investors treat FOMC meetings very differently from domestic policy events.[1]

[1] Guo et al. (2023) document that A-share indices also increase before the People's Bank of China's M2 releases. Pan and Peng (2023) show that the positive pre-M2 drift is mainly driven by small-cap stocks. While we also find that small stocks outperform large stocks before FOMC announcements, their returns remain significantly negative.

The V-shaped pattern around FOMC announcement dates is economically important. We evaluate simple, implementable trading strategies that either hold the market index continuously, hold only during the FOMC window (day -8 to day $+4$), or hold only outside that window (day $+4$ to day -8 of the next meeting). Because the FOMC calendar is announced months in advance, these strategies are fully predictable. Across four major Chinese indices, the "Window" strategy delivers sizable negative average excess returns, with Sharpe ratios between -0.49 and -0.64, while the "Non-window" strategy earns annual excess returns of 12–14% and Sharpe ratios between 0.30 and 0.42. Between 2007 and 2024, one yuan invested exclusively outside the FOMC window grows to between 3.6 and 6.1 *yuan*, compared with less than 1.2 *yuan* for a buy-and-hold strategy and only 0.15–0.20 *yuan* for an investor exposed solely to the $[-8, +4]$ window.

We then ask whether this negative announcement-window effect is unique to China or part of a broader global pattern. Using data from ten major equity markets, including that of India, we compare FOMC-cycle returns across countries. China's A-share market emerges as a clear outlier: it exhibits large, systematic losses in the $[-8, +4]$ window and strong gains outside that window. Most other markets, including the U.S., display either positive or mildly positive announcement-window returns and no evidence of a pronounced V-shaped pattern. This international comparison highlights that Chinese equities respond to the FOMC cycle in a manner that is both quantitatively and qualitatively distinct from other major markets.

The second part of the paper investigates the possible mechanisms through which FOMC meetings affect listed firms and markets. We first show that the negative announcement-window returns in the A-share market cannot be attributed to expected U.S. policy changes. Using Bloomberg survey data, we classify FOMC meetings by whether the federal funds rate is expected to rise, fall, or remain unchanged. Chinese stocks decline over the $[-8, +4]$ window in all three cases. Thus, the announcement-window loss is not conditional on the expected direction of policy and instead reflects a systematic feature of the FOMC cycle.

We next examine U.S. monetary policy uncertainty as a key driver of the pre-FOMC decline. Using the Eurodollar-based monetary policy uncertainty (MPU) index of Bauer et al. (2022), we show that MPU rises systematically in the days leading up to FOMC meetings and falls afterward. Splitting meetings into high- and low-MPU episodes, we find that A-share stocks fall more sharply and recover more slowly when pre-meeting MPU is elevated.

This evidence indicates that uncertainty surrounding U.S. monetary policy decisions plays a central role in generating the Chinese announcement-window effect.

To distinguish between cash-flow and discount-rate channels, we conduct a Campbell–Shiller decomposition of A-share market returns. We estimate a monthly VAR that includes U.S. MPU, the U.S. policy rate, and the cash-flow and discount-rate components of Chinese equity returns. An MPU shock leads to an immediate and statistically significant decline in expected cash flows, while its contemporaneous effect on discount rates is small and statistically insignificant. This timing difference, i.e., rapid cash-flow revisions followed by more gradual discount-rate adjustments, accounts for the V-shaped pattern observed at the daily frequency around FOMC announcements. Complementary evidence from the Hong Kong market, where many Chinese firms are listed and traded (H-share market), shows that A-share and H-share dual-listed Chinese companies exhibit the same V-shaped pattern as their mainland-listed counterparts, whereas non-Chinese firms listed in Hong Kong do not exhibit these patterns. This comparison suggests that the announcement-window effect is driven primarily by the location of firms' cash flows rather than by their listing and trading venue.

We then connect the announcement-window effect, and in particular, the adverse impact of the increase in uncertainty on firm's cash flows, to corporate governance. Using the Governance Index–A (GI-A) developed in Allen et al. (2024), which aggregates six firm-level governance dimensions, we sort Chinese A-share stocks annually and compute FOMC-cycle returns across governance groups. Firms with weaker governance experience substantially larger declines in the $[-8, +4]$ window, while return differences across governance groups are muted outside the window. We further show that institutional investors, proxied by large trades exceeding one million *yuan*, rebalance away from poorly governed firms and toward better-governed firms during the decline period. These capital flows are closely associated with cross-sectional return differentials around FOMC announcements. These results indicate that institutional investors process and trade on global information flows during FOMC days.

To better interpret the empirical results, we also build a simple model in which firm managers can 'divert' part of the firm's value (output), subject to a governance constraint that determines the cost of diversion. FOMC windows are modeled as periods in which heightened U.S. monetary policy uncertainty generates negative signals about future cash flows. When the firm's governance is weak, these signals are amplified into lower dividends:

managers optimally increase diversion (or reduce effort) in response to adverse news, making payouts more sensitive to negative shocks. As a result, firms with weaker governance exhibit more negative returns when unfavorable cash-flow news arrives, consistent with the cross-sectional patterns observed in the data.

Finally, we show that our findings help rationalize several puzzling features of the Chinese equity market. Recurrent FOMC-window losses contribute to the low average returns of A-shares relative to both the U.S. market and U.S.-listed Chinese stocks, particularly for large-cap firms and those with weak governance, as documented by Allen et al. (2024). Moreover, because these losses are tied to U.S. monetary policy uncertainty rather than domestic macroeconomic news, they are consistent with the negative correlation between Chinese stock returns and GDP growth. In this sense, the Federal Reserve's two-day meetings cast a long shadow over China's stock market and help explain why Chinese equities have underperformed despite strong real economic growth.

To summarize, we have three sets of main results. First, we document a new and economically large FOMC-cycle pattern in the world's second-largest equity market: a predictable V-shaped path of Chinese stock returns around FOMC announcements that is opposite in sign, longer in duration, and larger in magnitude than the pre-FOMC drift observed in the United States and other markets. Second, we show that this pattern is closely linked to U.S. monetary policy uncertainty and operates primarily through expected cash flows, with amplification among firms with weaker governance and those more exposed to the mainland economy. Third, we find that institutional investors rebalance their portfolios by reducing exposure to poorly governed firms and increasing holdings of well-governed ones during the decline phase of the FOMC-cycle, which drives the cross-sectional return patterns during this period.

Related Literature Our paper contributes to several strands of literature. First, our results extend the large literature on the impact of US monetary policies on non-US markets, especially on emerging markets. Many papers (Bernanke and Kuttner 2005, Gürkaynak et al. 2005, Rigobon and Sack 2004, Gertler and Karadi 2015, Nakamura and Steinsson 2018, and Bauer and Swanson 2023) focus on the effects of monetary policy shocks—that is, unexpected changes in the U.S. policy rate—on financial markets. Our results complement this literature by showing that heightened uncertainty about the U.S. policy rate can also

depress international asset prices and can have effects that are stronger and more persistent than those of conventional policy shocks.

Our paper also relates to the macro announcement drift literature. Lucca and Moench (2015) document a positive drift in U.S. and international equity prices in the day preceding FOMC announcements, accounting for a substantial share of realized equity excess returns. Cieslak et al. (2019) further show that U.S. and international stock returns are elevated in even weeks following FOMC announcements.[2] In contrast, we find that while Chinese stock returns before FOMC announcements are consistent with uncertainty accumulation, the uncertainty resolution mechanism appears largely irrelevant.

In addition, this paper relates to the literature on the global financial cycle in international economics, which documents that U.S. monetary policy has significant effects on global asset prices and real economic activity.[3] China is widely viewed as an economy in which capital controls largely insulate domestic financial markets from international shocks. Accordingly, existing studies argue that the transmission of external shocks to China occurs primarily through the limited cross-border investment channels introduced by the Stock Connect program in 2014 (Ma et al. 2019). In contrast, our findings indicate that China's financial markets are strongly exposed to U.S. monetary policy—particularly on FOMC announcement days—in a way that differs markedly from other countries. While Miranda-Agrippino and Nenova (2022) show that Federal Reserve and ECB policies exert similar effects on global equity markets, we document a distinct V-shaped pattern in Chinese stock prices around Federal Reserve announcement windows, but not around ECB announcements. This asymmetry points to a previously unexplored channel of global monetary policy spillovers.

Finally, our work extends a growing strand of literature studying the Chinese stock market (including both the A-share and H-share markets). Prior work shows that the A-share market reacts positively to important policy meetings. For instance, Pan and Peng (2023)

[2]Related work documents positive return drifts around non-monetary macroeconomic announcements (Brusa et al. 2020; Savor and Wilson 2013, 2014). Ai and Bansal (2018) and Wachter and Zhu (2022) characterize conditions under which macroeconomic announcements generate positive stock returns within narrow event windows. Hu et al. (2022) decompose announcement-window returns into pre- and post-announcement components and show that most returns are earned before announcements. They further distinguish an uncertainty accumulation phase from a subsequent uncertainty resolution phase and attribute the pre-announcement drift to the resolution of impact uncertainty.

[3]An incomplete list of the relevant literature includes Bruno and Shin (2015); Rey (2015, 2016); Gerko and Rey (2017); Dedola et al. (2017); Gilchrist et al. (2019); Albagli et al. (2019); Brusa et al. (2020); Miranda-Agrippino and Rey (2020, 2022); Miranda-Agrippino and Nenova (2022); Kearns et al. (2023).

show that there is a positive drift in Chinese stock prices prior to top domestic government meetings, while Guo et al. (2023) document similar patterns before the People's Bank of China's M2 releases. By contrast, we show that the A-share market reacts negatively to heightened uncertainty prior to FOMC meetings. An extensive strand of literature examines the corporate governance of A-share firms. In particular, Jiang et al. (2010) find that the provision of guarantees on questionable loans is one way a listed firm's controlling shareholder can 'tunnell' assets from the firm, while Allen et al. (2024) construct a governance index that includes the intercorporate loans provision from Jiang et al. (2010) and find that the governance index can explain cross-sectional variations in stock returns and operational performance among A-share firms. After 'decomposing' the impact of FOMC meetings on real activities and market returns, we conclude that it is mainly the 'shocks' in cash flows that affect listed firms, and we then link this result to corporate governance and investor behavior, which are consistent with our model's predictions.

The remainder of the paper is organized as follows. Section 2 documents the FOMC-cycle pattern in Chinese stock returns, evaluates its economic magnitude, and compares it across time and international markets. Section 3 examines potential mechanisms, focusing on U.S. policy expectations, monetary policy uncertainty, cash-flow versus discount-rate channels, and the roles of corporate governance and institutional investors. Section 4 discusses implications for the performance of Chinese equities and their relation to existing puzzles. Section 5 concludes.

2 Chinese Stock Returns Over FOMC Cycles

2.1 A New Fact

Figure 1 shows the key empirical finding, i.e., the dynamics of Chinese stock returns over the FOMC cycle from 2007 to 2024. The FOMC meetings are relatively uniformly distributed in each year, with gaps of one and a half months. We plot the average cumulative daily returns of China's stock market indices over an FOMC cycle, along with the 95% confidence interval. Day 0 is the FOMC monetary policy announcement day. Since the announcement happens at midnight in Chinese time, we take the upcoming trading day as day 0. The stock market begins declining 8 trading days prior to the FOMC monetary

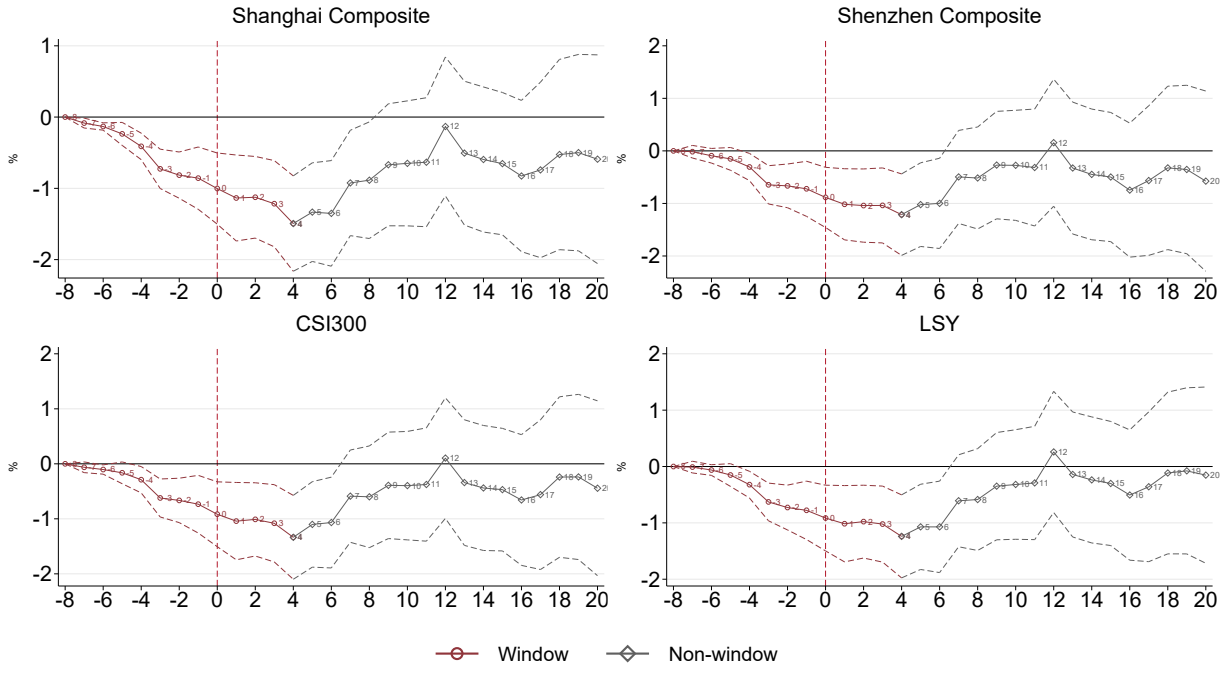


Figure 1: A-share average cumulative return over an FOMC cycle.

Notes. The figure plots average cumulative returns of China's stock market indices over an FOMC announcement cycle and the 95% confidence interval. The horizontal axis denotes days from the FOMC monetary policy announcement. The market indices include the Shanghai Composite Index, Shenzhen Composite Index, Shanghai Shenzhen CSI 300 (CSI300) Index, and the market return from Liu et al. (2019) (LSY). The sample period is from 2007 to 2024.

policy announcement and continues through 4 trading days afterward, spanning roughly two and a half weeks. Given that most announcements occur on Thursdays in China, the decline typically starts on the preceding Monday and lasts until the following Wednesday. The market then rebounds, returning to its pre-announcement level 12 trading days after the announcement, after which price fluctuations remain muted. Over an average FOMC cycle, China's stock market declines by 1.4% between days -8 and 4 and recovers by a similar amount between days 4 and 12.

We investigate four market indices: the Shanghai Composite Index, Shenzhen Composite Index, Shanghai Shenzhen CSI 300 Index, and the market return from Liu et al. (2019) (LSY)[4]. The patterns are highly consistent across these indices. Therefore, we focus on the

[4]We obtain the updated data from this website: https://en.mingshiim.com/database.

LSY index for the rest of the paper.

The significant pre-announcement drift contrasts sharply with the patterns documented by the literature. Lucca and Moench (2015) pioneered literature on the pre-FOMC drift in the U.S. stock market and argued that the same pattern holds in many other markets. They found that the S&P500 index had **increased** 49 basis points in the 24 hours before the scheduled FOMC announcements, and the pre-FOMC drift accounted for 80% of the annual realized excess stock returns. They also documented pre-FOMC drifts of similar magnitudes in many other countries. The pre-FOMC drift in the Chinese stock market differs from those in the literature in two important aspects.

1. The directions are opposite. The pre-FOMC drift in China is negative and persists after the announcement. Therefore, the pre-FOMC drift in China does not account for a positive fraction of the realized excess stock returns.

2. A larger magnitude. The pre-FOMC drift in the literature starts one day before the announcement, but the drift in China starts much earlier. Moreover, the total magnitude of the Chinese drift is three times as large as the U.S. drift.

Over the course of a complete FOMC cycle, the Chinese stock market exhibits markedly different dynamics from those of the U.S. market. Cieslak et al. (2019) discovered an alternating weekly return pattern in U.S. and international markets, with high returns in the announcement week and in even weeks thereafter, and near-zero returns in odd weeks. While Chinese returns also exhibit a cyclical pattern, they are dominated by one pronounced and prolonged "V" pattern surrounding the FOMC meeting. In the U.S., the high- and low-return phases each last roughly one week; in China, the contraction extends for about two and a half weeks, followed by a recovery of about one and a half weeks. More importantly, whereas U.S. stock returns are positive in the announcement week, Chinese returns are negative.

Does another driver of the global financial cycle, the ECB, affect Chinese stocks similarly to the Fed? Miranda-Agrippino and Nenova (2022) find that Fed and ECB monetary policy shocks affect global financial conditions in similar ways using event-window regressions. Interestingly, we don't observe similar dynamics in China's stock market around Fed and ECB monetary policy announcements. Figure A1 shows the average cumulative returns of Chinese A-share indices around ECB monetary policy announcements from 2007 to 2024.

Instead of a deep dive in the week before the announcement, the market indices remain almost constant. Moreover, the market rises two days before the announcement, and persists until one day afterward. This pattern is similar to how international stock markets respond to Fed monetary policy announcements, but starkly different from China's own stock market response to these announcements.

2.2 FOMC Meetings vs. China's Top Government Meetings

Analogous to the significance of FOMC meetings for the U.S. market, Pan and Peng (2023) demonstrate the importance of China's top government meetings for the Chinese stock market. They find that the Shanghai Composite Index exhibits a significant upward drift beginning two days before these meetings, yielding substantial gains relative to the market's overall average return. In this subsection, we extend this analysis by showing that the Chinese stock market's reaction to FOMC announcements is distinct not only from the U.S. market's response to the FOMC announcements but also from its own reaction to domestic government meetings. In Figure 2, we compare the average cumulative return of the Shanghai Composite Index surrounding two types of events: FOMC monetary policy announcements and top Chinese government meetings. The horizontal axis represents the number of trading days before and after the event (Day 0), while the vertical axis shows the percentage return on the index. The sample periods are 2007-2024 for both types of events.

The blue line, representing the reaction to FOMC meetings, shows a constant drop in the days leading up to and following the announcement, reaching a low point on day 4, after which it begins a gradual recovery. In contrast, the red line, which tracks the market's performance around China's top government meetings, almost coincides with the blue line until 3 days before the announcement, but diverges thereafter. Consistent with Pan and Peng (2023), we also find a significantly positive pre-Govt drift in the China's market index two days before the event day.

Drawing on the framework proposed by Hu et al. (2022) and Pan and Peng (2023), the pre-announcement phase can be divided into an "uncertainty accumulation period" and an "uncertainty resolution period." During the former, risk aversion typically leads to a decline in stock market indices due to heightened uncertainty about forthcoming policy decisions. The subsequent positive pre-announcement drift is attributed to the resolution of

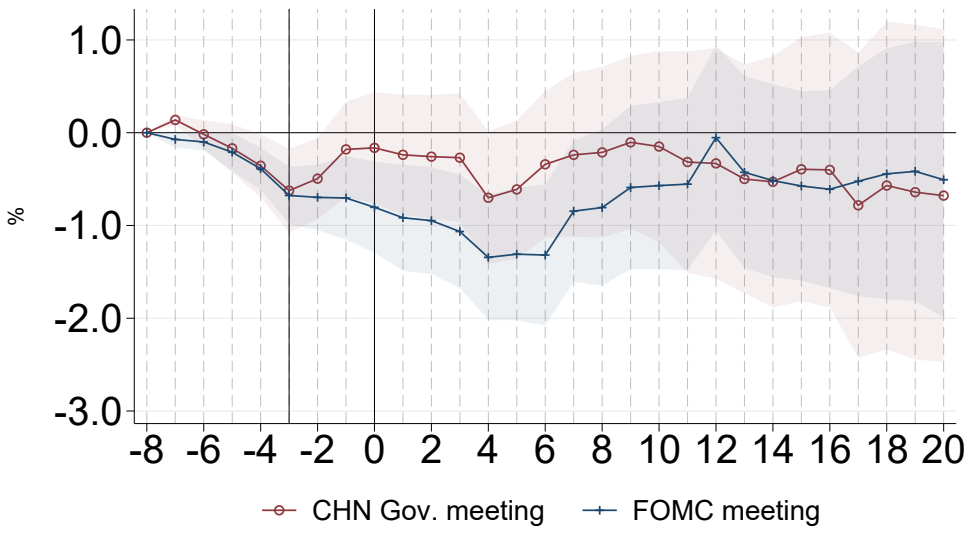


Figure 2: FOMC vs. China's top government meetings.

Notes. The figure presents the average cumulative return of the Shanghai Composite Index around an FOMC monetary policy announcement or a Chinese top government meeting day identified by Pan and Peng (2023). The horizontal axis denotes trading days from the event day. Day 0 of the FOMC cycle is the first Chinese trading day following the FOMC monetary policy announcement. Day 0 of the top government meeting is the first day of the Two Sessions, Plenums of the CCP Central Committee and Party Congress Meetings, and the first trading day after the Politburo meetings on macroeconomic issues. The shaded regions denote the 95% confidence intervals. The sample periods are 2007-2024 for both events.

this uncertainty shortly before the official announcement.

Observing the behavior of China's stock market, it appears to follow this pattern during the uncertainty accumulation period for both FOMC announcements and top government meetings. However, a significant divergence emerges in the uncertainty resolution period. While theory suggests a rebound, stock returns in the Chinese market remain negative in the period immediately preceding FOMC announcements and continue this downward trend even after the announcement occurs. This suggests that for the Chinese market, the resolution of uncertainty surrounding FOMC decisions does not translate into a positive market drift.

2.3 Economic Magnitude

This subsection examines the economic significance of the prolonged decline and recovery in China's stock market around FOMC announcements. We evaluate the performance of

simple trading strategies designed to solely capture the returns during the [-8, 4] contraction episode or the remaining days, and compare them to a passive buy-and-hold benchmark.

Table 1 reports the summary statistics for three distinct trading strategies applied to four major Chinese stock market indices—the Shanghai Composite, Shenzhen Composite, CSI300, and the LSY market return—over the period 2007–2024. The strategies are:

1. **All Days**: continuously hold the index throughout the sample period.
2. **Window**: buy on day -8 and sell on day 4 relative to each FOMC announcement.
3. **Non-window**: buy on day 4 and sell on day -8 of the next FOMC announcement.

Since the FOMC meeting calendar is released on the Federal Reserve Board's website years ahead, the strategies are "predictable", i.e., plausible in practice.

The contrast between these strategies is striking. The **Window** strategy, which seeks to capture returns during the [-8, 4] period surrounding an FOMC announcement, delivers consistently negative average excess returns across all indices, with Sharpe ratios in the range of -0.49 to -0.64. These losses occur despite relatively low return volatility, underscoring that returns in the pre-announcement and immediate post-announcement window in China are systematically adverse rather than random. By contrast, the **Non-window** strategy—explicitly avoiding the announcement window—achieves substantially higher average annual excess returns (12%–14%) and positive Sharpe ratios (0.30–0.42). The **All Days** benchmark lies between these extremes, with marginally positive average annual excess returns (2%–5%) and low Sharpe ratios (0.06–0.15).

The cumulative returns further highlight the economic magnitude of these differences. Interpreted as the growth in the value of an initial 1 *yuan* investment in 2007 by 2024, the **Window** strategy produces significant wealth losses, ending with values between 0.15 and 0.20 *yuan*. In sharp contrast, the **Non-window** strategy yields substantial growth, with the final portfolio value exceeding 3.6 *yuan* for the Shenzhen Composite and reaching 6.08 *yuan* for the LSY index. The **All Days** benchmark ends up with less than 1.2 *yuan* for the LSY index and 0.7 *yuan* for the Shanghai and Shenzhen indices, reflecting the well-known underperformance of the Chinese stock market (e.g., Allen et al. (2024)). Collectively, these results confirm that the persistent decline in Chinese equities around FOMC announcements imposes a significant opportunity cost on passive investors, while a simple timing rule that excludes the -8 to $+4$ window can materially enhance long-term wealth accumulation.

Taken together, these statistics provide clear evidence that the Chinese equity market's negative announcement window effect materially reduces long-term portfolio returns. A simple timing rule that excludes the -8 to $+4$ trading-day window not only avoids this persistent downturn but also materially improves the return-to-risk profile.

Table 1: Summary statistics of various trading strategies.

	Mean	SD	Sharpe	Cum. Return	Mean	SD	Sharpe	Cum. Return
	Shanghai Composite				Shenzhen Composite			
All days	0.02	0.33	0.06	0.71	0.05	0.44	0.11	0.72
Window	-0.10	0.15	-0.64	0.15	-0.08	0.17	-0.49	0.20
Non-window	0.12	0.31	0.39	4.75	0.13	0.42	0.30	3.63
	CSI300				Liu, Stambaugh and Yuan (2019)			
All days	0.05	0.39	0.13	0.89	0.05	0.35	0.15	1.19
Window	-0.09	0.16	-0.54	0.17	-0.08	0.16	-0.53	0.20
Non-window	0.14	0.37	0.37	5.20	0.14	0.33	0.42	6.08

Notes. The table presents summary statistics of three trading strategies: (1) All days: holding the index all the time; (2) Window: buying the index on day -8 and selling the index on day 4; (3) Non-window: buying the index on day 4 and selling the index on day -8 of the next FOMC announcement. For each strategy, we compute the annual mean excess return (Mean), standard deviation of the excess return (SD), the Sharpe ratio (Mean/SD), and the cumulative return from 2007 to 2024. The units for all numbers are decimal fractions.

2.4 Structural Change

Figure 3 illustrates how the relationship between Chinese stock returns and the FOMC cycle has evolved over time. Panel (a) plots the cumulative returns of A-shares within the $[-8, 4]$ announcement windows for the period 2000–2024. The figure exhibits a clear single-peak pattern: the stock market trended upward within the announcement windows prior to 2007, but declined consistently thereafter.

Panel (b) presents the corresponding patterns for the earlier sample period, 2000–2007. As documented in Figure 1, returns within these windows are consistently negative, with the cumulative return across the window declining by roughly 2% to 2.5% for major indices. However, during the pre-2007 episode, the pronounced decline around the announcement window is absent. Cumulative returns over the $[-8, 4]$ windows are positive, and the trend

continues afterward. Notably, the gains from the pre-FOMC drift account for roughly half of the total gains from the entire cycle, consistent with the U.S. pattern documented by Lucca and Moench (2015).

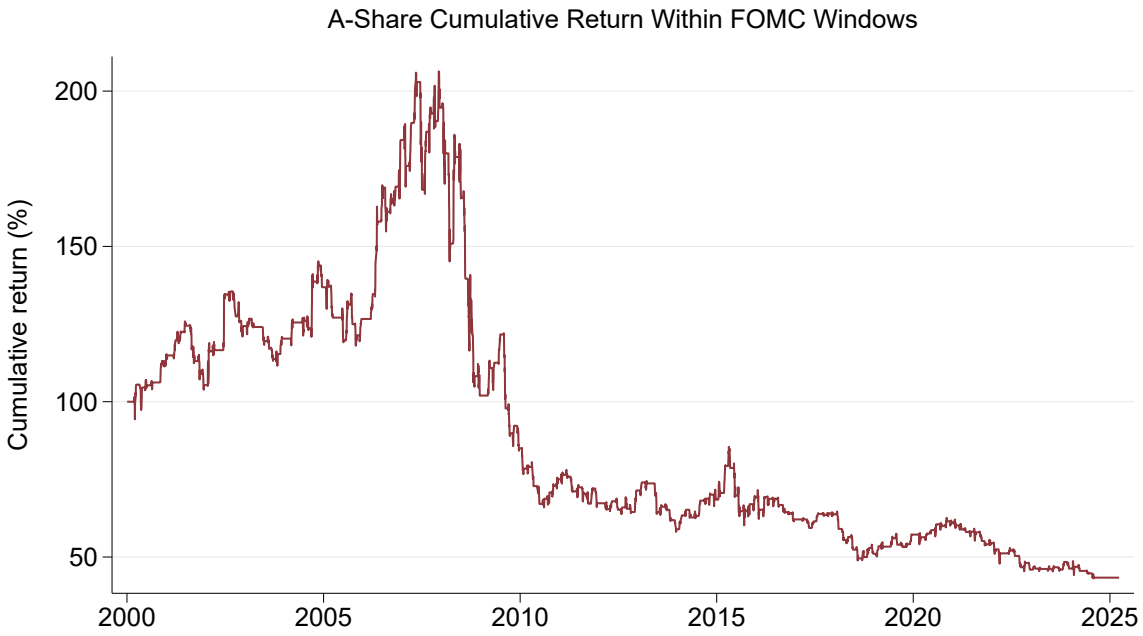
2.5 International Comparison

Figure 4 compares the average cumulative returns over an FOMC cycle for ten major stock markets: China A-share (CHN), United States (USA), Japan (JPN), Hong Kong (HKG), India (IND), Canada (CAN), France (FRA), United Kingdom (GBR), Saudi Arabia (SAU), and Germany (DEU). For each market, the plots separately show the performance of the **Window** strategy (day -8 to day 4) and the **Non-window** strategy (day 4 to day -8 of the next cycle).

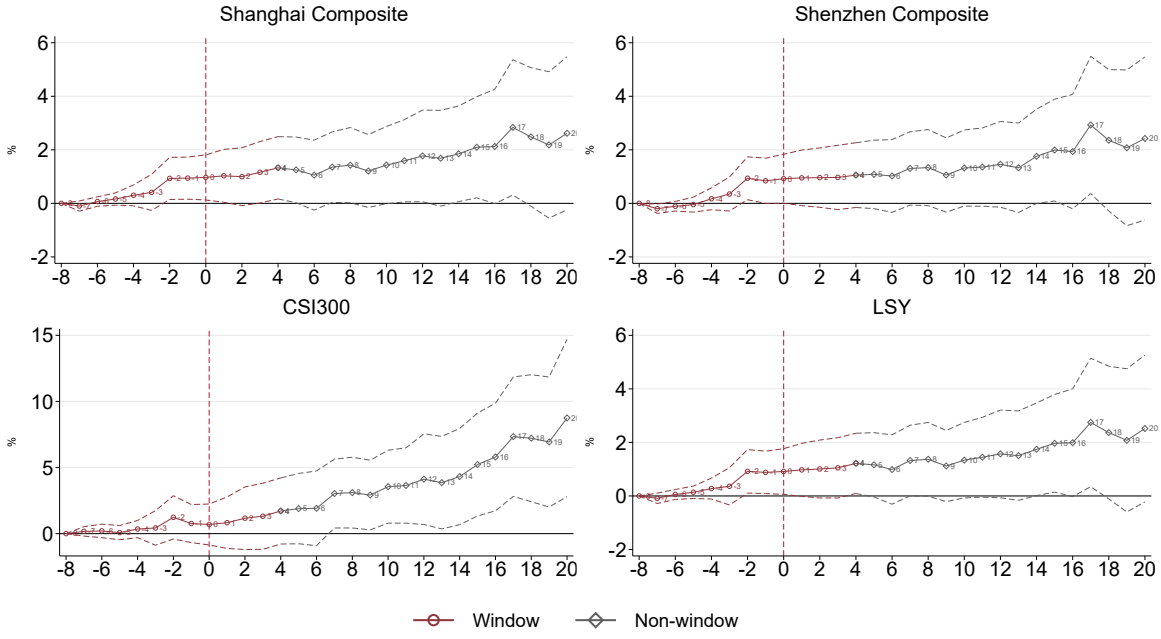
The Chinese A-share market stands out in stark contrast to the other markets. In China's A-share market, the cumulative return within the $[-8, 4]$ window declines persistently, ending roughly 1.4% lower than its value on day -8. This drop begins about a week before the FOMC announcement and continues until several days afterward, consistent with the V-shaped pattern documented earlier. By contrast, in most other markets—particularly the U.S.—the **Window** strategy yields positive or moderately positive cumulative returns. For example, the U.S. market shows gains of about 0.8% to 1.0% in the window, consistent with the pre-FOMC drift documented by Lucca and Moench (2015). Several other markets, including Canada, France, and the United Kingdom, display either small positive window returns or largely flat trajectories, with no evidence of the deep decline seen in China.

The **Non-window** strategy further highlights this divergence. In CHN, avoiding the $[-8, 4]$ window produces strong gains over the remainder of the cycle, with cumulative returns exceeding 5% in some indices. While other markets also generate positive non-window returns, their window returns tend to be neutral or positive, meaning the incentive to avoid the announcement window is weaker outside China.

Overall, Figure 4 demonstrates that the negative pre-announcement pattern identified in Chinese equities is unique in both direction and magnitude. Whereas the announcement window is a period of mild gains or stability in most global markets, it consistently erodes value in China's A-share market with a significant magnitude, underscoring the uniqueness of the Chinese stock market.



(a) A-share cumulative return within FOMC [-8,4] windows.



(b) A-share cumulative return over an FOMC cycle, 2000-2007.

Figure 3: Structural change in China's stock market returns over FOMC cycles.

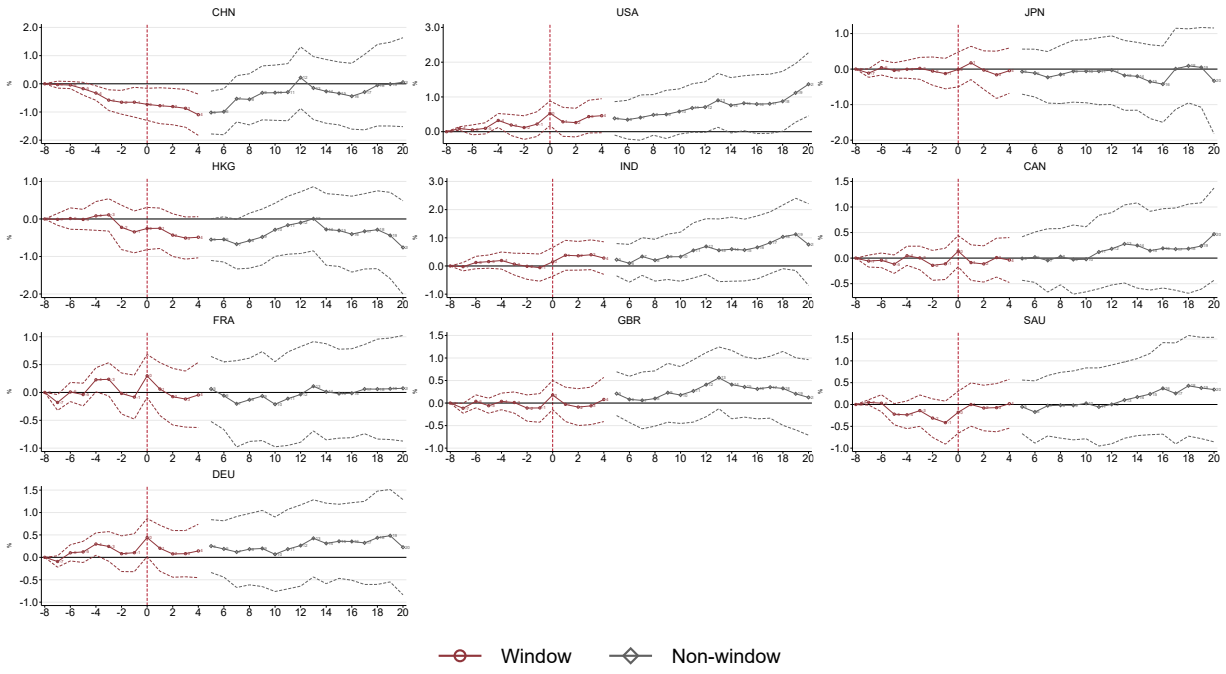


Figure 4: Cumulative stock returns over an FOMC cycle in the world's ten major stock markets.

Notes. The figure plots the average cumulative returns and 95% confidence intervals over an FOMC cycle in ten stock markets. The markets include the China A-share (CHN), U.S. (USA), Japan (JPN), Hong Kong (HKG), India (IND), Canada (CAN), France (FRA), U.K. (GBR), Saudi Arabia (SAU), and Germany (DEU). The sample periods for all markets are from 2007 to 2024.

3 Mechanism

In this section, we investigate why China's stock market declines during the [-8, 4] announcement window.

3.1 Expected U.S. Monetary Policy

We begin by analyzing the role of market expectations regarding changes in the federal funds rate. Using Bloomberg survey data, we classify each FOMC meeting into three categories based on the difference between the survey-implied expected rate and the policy rate set at the previous meeting: Negative (expected decrease), Positive (expected increase), and Zero (no expected change). Because the downward trend in Chinese stock returns begins as early as eight trading days before the announcement, it is essential that our measure of policy expectations be based on information available prior to the announcement. Commonly used measures of monetary policy shocks such as high-frequency changes in interest rate futures are observed only after the announcement and are therefore unsuitable for explaining pre-announcement dynamics. Figure 5 assesses whether Chinese stock returns over the FOMC cycle differ systematically across the three expectation categories.

A striking feature across all three categories is that the Chinese A-share market experiences a decline in the $[-8, 4]$ announcement window regardless of the expected direction of the federal funds rate change. This persistent window loss underscores that the negative V-shaped pattern identified in Figure 1 is robust to differences in policy expectations.

While the direction of decline is consistent across categories, its magnitude varies. When the expected change is negative, the window returns fall by more than 3%, with the drop beginning well before the announcement and extending for several days afterward. This severe reaction likely reflects investor concerns over a weakening U.S. economic outlook. In the Positive group, the window decline is milder—about 1% to 1.5%—and much of the loss is recovered shortly after the announcement. Even in the Zero group, where no rate change is anticipated, the window still registers a small but noticeable decline, on the order of a few tenths of a percent.

Outside the $[-8, 4]$ window, the **Non-window** strategy performs positively in all three groups, with the strongest gains observed when expected changes are Negative—highlighting the benefit of avoiding the announcement window.

Overall, Figure 5 demonstrates that China's stock market consistently loses value in the FOMC announcement window, irrespective of whether U.S. investors expect policy easing, tightening, or no change. Variations in magnitude suggest that market sentiment is most pessimistic when cuts are anticipated, but the underlying window effect remains a robust and distinctive feature of Chinese equity behavior over the FOMC cycle.

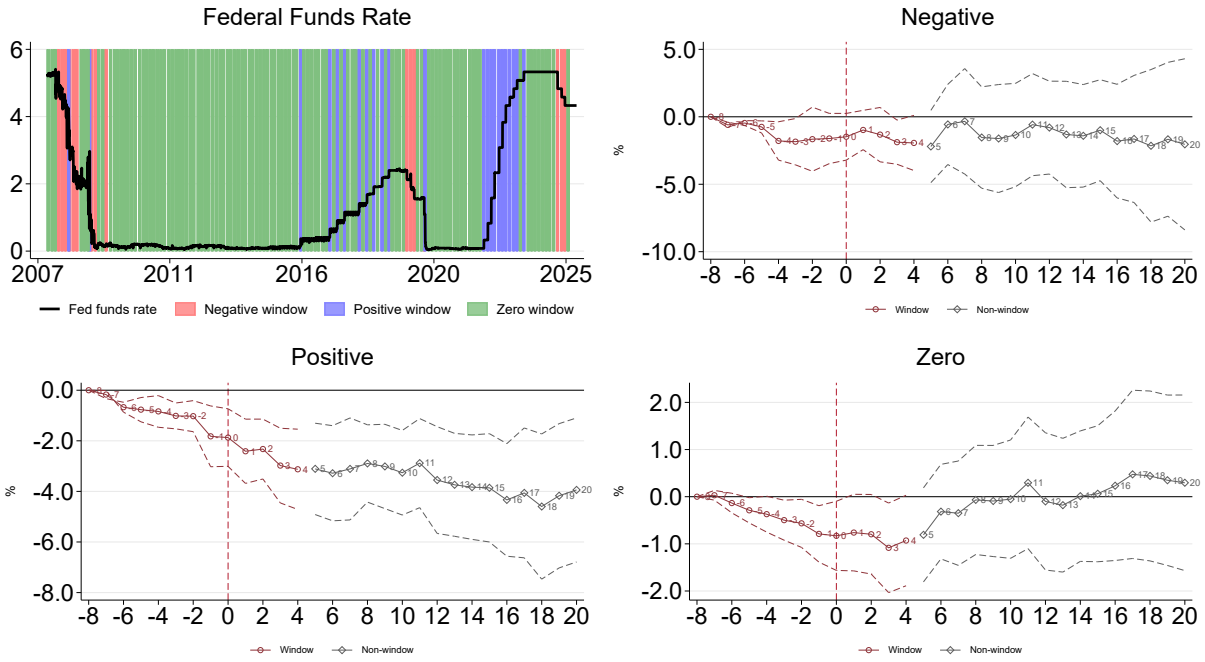


Figure 5: Expected FFR change and China's stock returns.

Notes. We classify the FOMC announcements into three groups according to the difference between the Bloomberg survey expectation of the current federal funds rate and the previous meeting's decision. "Negative" means that the expected rate is lower than the previous policy rate, and similarly for other groups. The top left panel reports the classification results, and the other three panels present the average cumulative returns of China's market index over an FOMC cycle within the respective group.

3.2 U.S. Monetary Policy Uncertainty

Figure 6 explores whether variations in U.S. monetary policy uncertainty (MPU) influence the dynamics of Chinese stock returns over the FOMC cycle. The MPU measure is the implied volatility of Eurodollar futures and options constructed by Bauer et al. (2022) and

is normalized to zero at day −8 for comparability across meetings.

The top panel plots the average MPU trajectory from day −8 to day +20 relative to the FOMC announcement. On average, MPU rises in the days leading up to the meeting, peaks two days before the announcement date, and then gradually declines. This pattern suggests that uncertainty about U.S. monetary policy accumulates before each meeting and is resolved during the meeting.

The bottom panel categorizes FOMC meetings into High-MPU and Low-MPU categories based on the average MPU level between days −8 and −2 preceding the announcement, with a split at the median. We then plot the cumulative return of China's A-share market index for each group. The results reveal a pronounced difference in market reactions:

- Under High-MPU, Chinese equities exhibit a sharper pre-announcement decline, with cumulative losses approaching 2.5% by day 4. The pattern retains the deep "V" shape documented earlier, but with a wider trough and slower recovery.
- Under Low-MPU, the decline in the window is milder—around 1.0%—and the recovery begins sooner, with cumulative returns returning to near-zero levels by day 12.

These findings indicate that elevated uncertainty surrounding U.S. monetary policy amplifies the negative announcement-window effect in China's equity market. The persistence and magnitude of losses in the High-MPU group suggest that uncertainty acts as an independent channel—beyond the expected direction of policy changes—through which FOMC meetings influence Chinese stock returns. This reinforces the view that both the content and the predictability of U.S. monetary policy matter for international asset prices.

3.3 Cash Flow and Discount Rate

We next investigate whether the negative announcement-window effect in China's equity market is primarily driven by changes in expected cash flows or shifts in discount rates. Figure 7 and Figure 8 present complementary evidence on this mechanism.

Figure 7 reports impulse responses from a monthly VAR to a one-standard-deviation increase in U.S. monetary policy uncertainty (MPU). The variables include U.S. MPU, U.S. monetary policy shock (MPS), the cash flow component, and the discount rate component of China's market return. The MPS is the monetary policy shock from Jarociński and

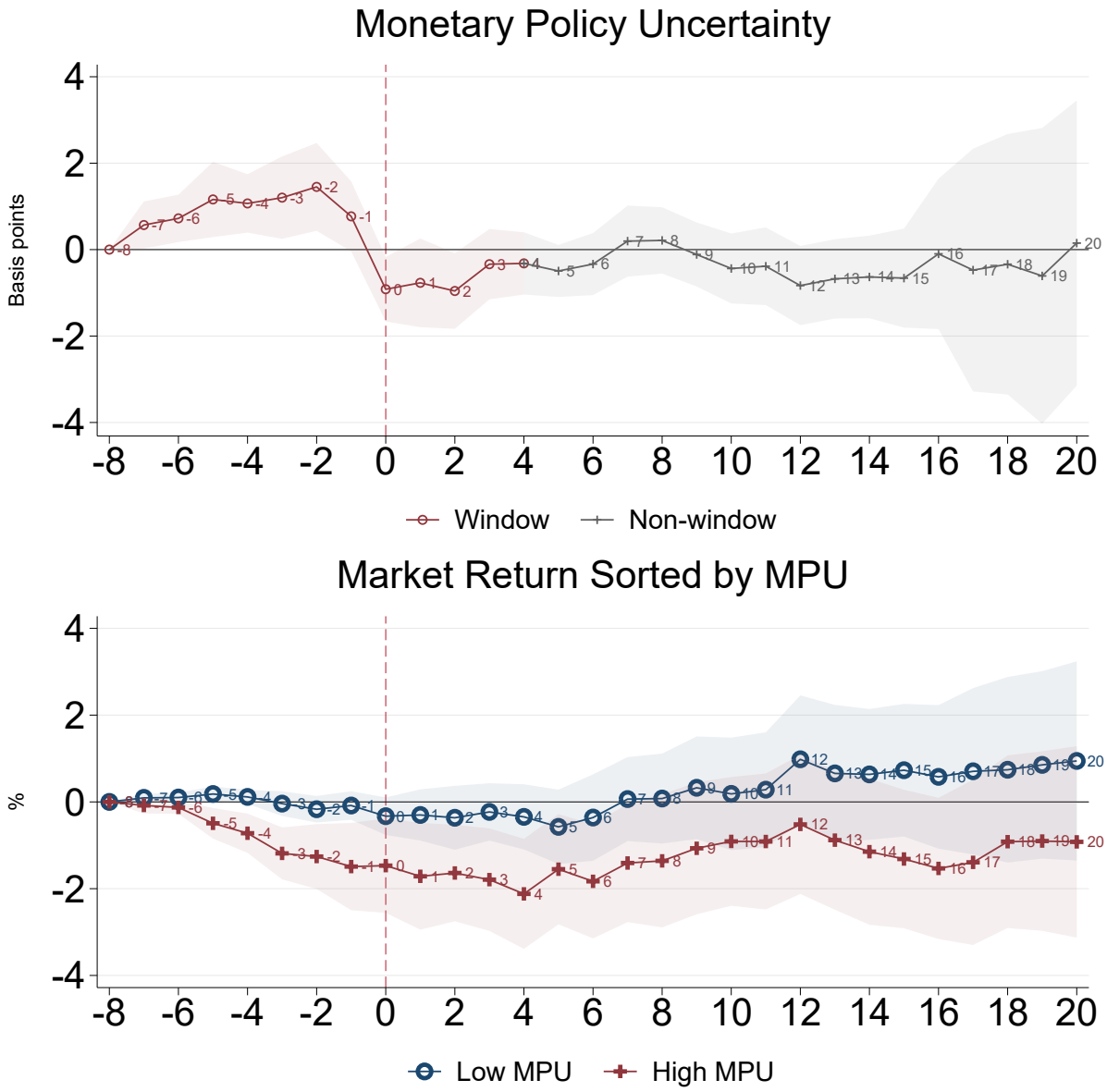


Figure 6: U.S. monetary policy uncertainty and Chinese stock returns over an FOMC cycle.

Notes. The top panel plots the average level of U.S. monetary policy uncertainty (MPU) over an FOMC cycle, with the initial value normalized to zero. The bottom panel groups FOMC meetings by average MPU between days -8 and -2, and then plots the cumulative return of China's market index for each group.

Karadi (2020); the cash flow and discount rate are from a Campbell-Shiller decomposition of monthly returns on China's market index. The MPU shock is identified via a Cholesky decomposition, following the order: MPU, MPS, cash flow, and discount rate. This ordering assumes that U.S. MPU affects China's stock returns in the current month but not vice versa.

The key finding is that an MPU shock leads to an immediate and statistically significant decrease in China's cash flow, indicating that policy uncertainty is quickly reflected in lowered expectations of corporate earnings. In contrast, the discount rate shows no significant change on impact, with adjustments occurring more gradually in subsequent months. This timing distinction suggests that the announcement-window decline in China is largely initiated by rapid downward revisions in expected cash flows, rather than instant changes in discount rates.

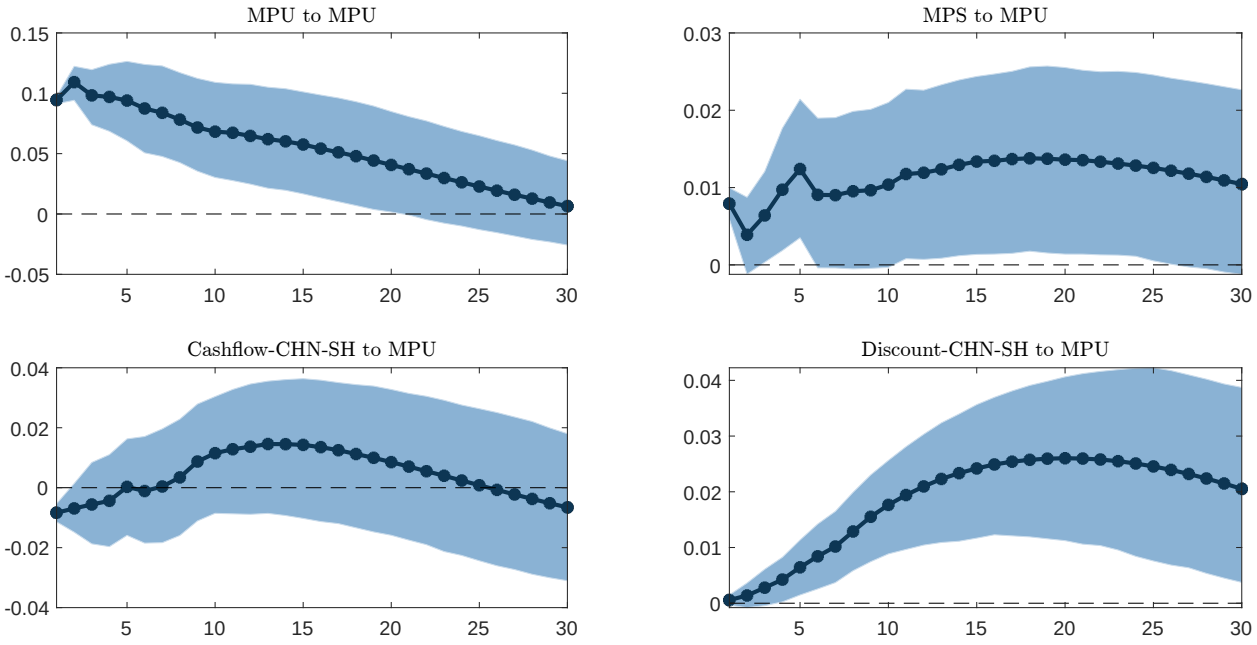


Figure 7: Impulse responses to an increase in U.S. monetary policy uncertainty.

Figure 8 complements this analysis by comparing cumulative returns over the FOMC cycle for three equity categories: the A-share index; the A-share (HSAH_A) and H-share (HSAH_H) components of Hong Kong-listed mainland China companies; and HSHK35, a portfolio of the largest 35 Hong Kong-listed firms whose main business is outside mainland

China. The A-share market exhibits the familiar V-shape pattern in the announcement window, consistent with the cash flow shocks identified in the VAR. H-shares also decline in the window, but less sharply, while the HSHK35 portfolio exhibits minimal movement, suggesting that the effect is concentrated in firms more directly exposed to mainland economic conditions.

Taken together, Figure 7 and Figure 8 indicate that the negative announcement-window effect in Chinese equities is initiated by rapid downward revisions in expected cash flows in response to U.S. policy uncertainty. Discount rate adjustments occur later and appear to play a secondary role in the short run, with the magnitude of the effect amplified in the onshore A-share market.

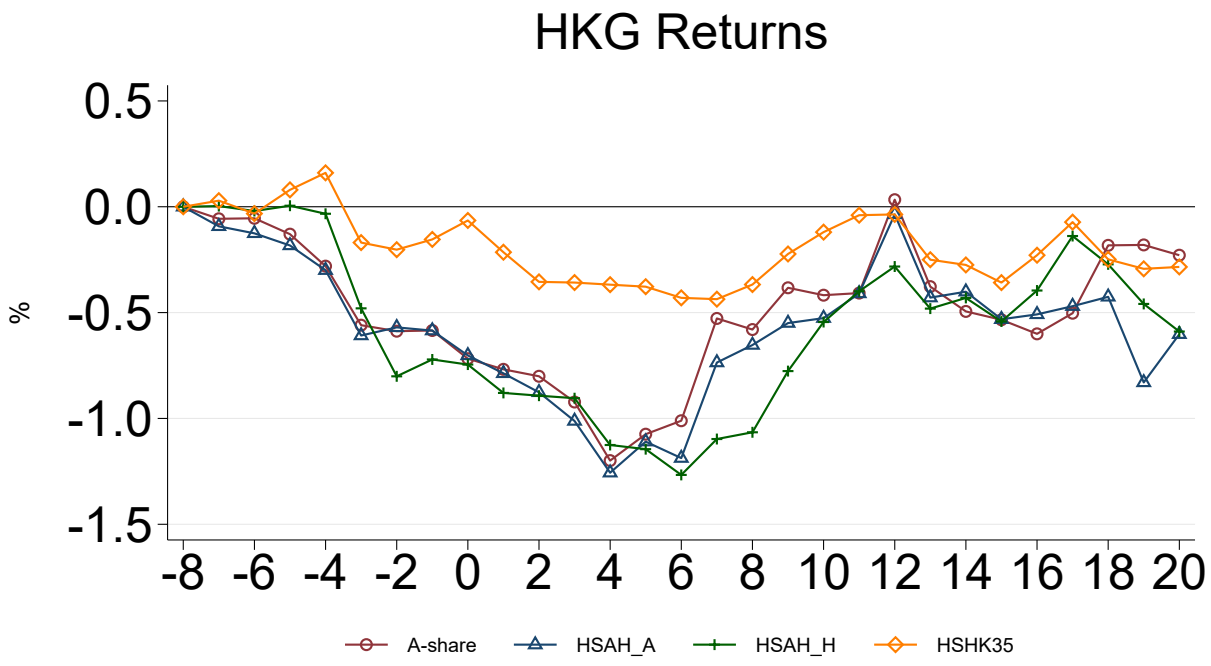


Figure 8: A-share and Hong Kong stock returns over an FOMC cycle.

Notes. HSAH_A and HSAH_H are the A-share and H-share components of the Hang Seng Stock Connect China AH Premium Index. HSHK35 consists of the 35 largest companies listed in Hong Kong with main business outside mainland China.

3.4 Corporate Governance

Allen et al. (2024) associates the low return of Chinese stocks with weak corporate governance and low cash flows. If the negative returns during the FOMC announcement windows can be mostly explained by the expected cash flow channel, it follows that poorly governed firms witness deeper drops in their stock prices during these episodes.

Following Allen et al. (2024), we use the G-Index-A index (GI-A) to measure corporate governance. The index ranges from 0 to 6, and is the sum of scores on the following six dimensions: CEO duality, state ownership, executive holdings, board size, ownership concentration, and related-party transactions. A higher GI-A indicates better corporate governance. The firm-level GI-A indices are available annually from 2000 to 2018. Each year, we group stocks according to their GI-A indices and compute the average cumulative returns over an FOMC cycle for each group. According to Figure 9, markets with lower GI-A scores, reflecting weaker corporate governance, experience deeper declines in the announcement window. Outside the announcement window, all stock prices recover, and there are much smaller differences in growth rates across GI-A scores.

3.5 A Model of Corporate Governance and the Effects of FOMC Meetings

We develop a simple model to explain the negative stock returns within FOMC windows and the amplification effect of weak governance. The model features a manager who can divert the firm's output, and corporate governance limits the fraction that the manager can divert. Motivated by our empirical findings, we model the FOMC window as a negative cash flow signal (due to heightened monetary policy uncertainty). The manager's diversion amplifies the sensitivity of the firm's dividend to the negative cash flow signal. Since it's easier to divert cash flows from poorly governed firms, their stocks are less attractive during the FOMC announcement windows.

Managers manage a production technology $Y = Ae$, where Y is output, A is TFP, and e is effort. The manager can choose the effort e to improve output by paying a cost $\frac{c}{2}e^2$, with $c > 0$ being a parameter. The manager can divert d from the output by paying a cost $\frac{\kappa}{2}d^2$, where $\kappa > 0$ is a parameter related to corporate governance. There is a probability $\pi(d) = \gamma d \in (0, 1)$ that the diversion will be caught and the manager must pay a fine of λA.

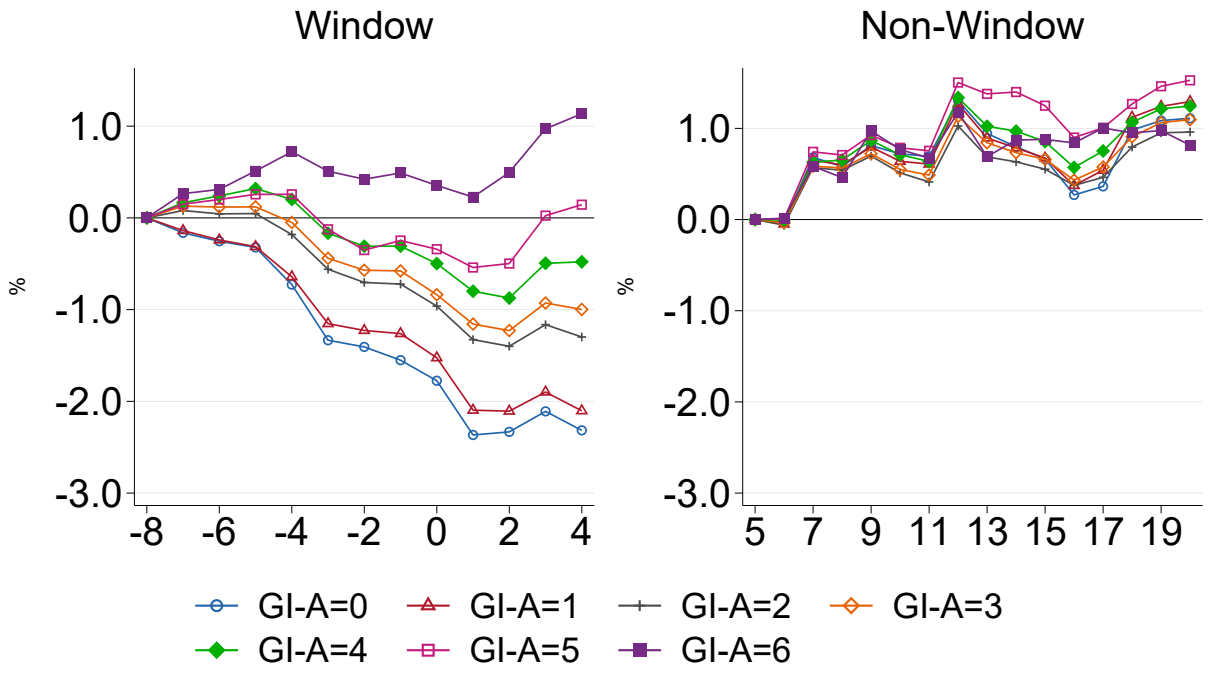


Figure 9: Returns on portfolios sorted by governance.

Notes. GI-A is the corporate governance index from Allen et al. (2024). A higher GI-A indicates better governance. The portfolios are rebalanced every year.

Managers own $1-\alpha \in (0,1)$ share of the firm.

The manager's maximization problem is

$$\max_{d,e} d - \frac{\kappa}{2}d^2 - \pi(d) * \lambda A + (1-\alpha)(Ae - d) - \frac{c}{2}e^2$$

The first-order condition for optimal diversion is

$$d^* = \frac{\alpha - \gamma\lambda A}{\kappa}, \tag{1}$$

optimal effort is

$$e^* = \frac{1-\alpha}{c}A, \tag{2}$$

and the dividend to outsiders is given by

$$\text{Dividend} \equiv \alpha(Ae^* - d^*) = \alpha\left[\frac{(1-\alpha)A^2}{c} - \frac{\alpha - \gamma\lambda A}{\kappa}\right]. \tag{3}$$

The dividend responds to A according to

$$\frac{\partial \text{ Dividend}}{\partial A} = \frac{2\alpha(1-\alpha)}{c}A + \frac{\alpha\gamma\lambda}{\kappa} > 0. \tag{4}$$

Importantly, higher governance (higher κ) dampens the sensitivity of dividend to A:

$$\frac{\partial}{\partial \kappa}\left(\frac{\partial \text{ Dividend}}{\partial A}\right) = -\frac{\alpha\gamma\lambda}{\kappa^2} < 0. \tag{5}$$

The model yields two important predictions, which are consistent with our empirical findings:

Prediction 1. When the monetary policy uncertainty lowers A, it lowers the dividend and thus the return.

Prediction 2. The response of dividends to a negative A shock is smaller for stocks with better governance (higher κ).

3.6 Institutional Investors and Governance

The trading behaviors of institutional investors are consistent with the notion that poorly governed firms are less attractive before FOMC meetings.

We estimate the following regression using daily stock trading and returns data:

$$y_{i,t} = \alpha \times GIA_{i,t} + \sum_{d=-7}^{12} \beta_d \mathbf{1}_{t=d} + \sum_{d=-7}^{12} \delta_d \mathbf{1}_{t=d} \times GIA_{i,t} + \Gamma_i + u_{i,t}. \tag{6}$$

Here, $y_{i,t}$ denotes the net trading flow or return for stock i on date t. The independent variables include dummy variables for each day of the decline and recovery episode within an FOMC meeting cycle, the interaction between the daily dummy and the GI-A index, and firm fixed effects. To capture the trading behaviors of institutional investors, we focus on the transactions exceeding 1 million *yuan*, as Pan and Peng (2023) do. A positive value for the net trading flow indicates net purchases of the stock. We normalize the net trading flow of each stock by subtracting its time series mean and dividing by its standard deviation. The trading flow data are from *Choice*, covering the period from 2010 to 2024.

Table 2 reports the coefficients on the interaction terms. To save space, we only report the results for the decline episode, but the results for the recovery phase are also consistent. Throughout the decline episode, the interaction terms have positive coefficients, indicating that high-governance stocks experience higher capital net flows and higher returns than low-governance stocks.

4 Implications

In Figure 1, we documented a pronounced V-shaped pattern in Chinese stock returns around FOMC announcements, with a persistent decline from day -8 to day $+4$ followed by a partial recovery. The cumulative losses in the declining segment provide a natural explanation for the underperformance of China's stock market over the past two decades. This recurring downturn is unique in magnitude relative to other major markets (Figure 4) and aligns closely with the four stylized facts documented by Allen et al. (2024):

1. The return on China's A-share market is lower than that of the U.S. market and foreign-listed Chinese stocks.

Table 2: Net capital flow and stock returns within FOMC windows.

	Shanghai		Shenzhen		Shanghai & Shenzhen	
	Flow	Return	Flow	Return	Flow	Return
-7×GIA	0.00415	0.0672	0.0170*	0.0359	0.0144*	0.0458
	(0.57)	(1.47)	(2.27)	(0.84)	(2.00)	(1.06)
-6×GIA	0.00812	0.0525	0.00743	0.0300	0.0103	0.0454
	(1.22)	(1.23)	(1.05)	(0.67)	(1.47)	(1.03)
-5×GIA	0.0162	0.0905*	0.0109	0.0271	0.0141*	0.0416
	(1.87)	(2.01)	(1.86)	(0.64)	(2.25)	(1.00)
-4×GIA	0.00361	0.0258	0.00604	0.0289	0.00616	0.0389
	(0.51)	(0.59)	(1.06)	(0.66)	(1.00)	(0.86)
-3×GIA	0.00469	0.0134	0.00819	0.0102	0.00979	0.0282
	(0.59)	(0.26)	(1.19)	(0.22)	(1.57)	(0.60)
-2×GIA	0.00730	0.0987*	0.0141*	0.0139	0.0163*	0.0417
	(0.96)	(2.20)	(2.00)	(0.35)	(2.03)	(1.00)
-1×GIA	0.0138*	0.0429	0.00899	0.0582	0.0118	0.0554
	(2.22)	(0.96)	(1.42)	(1.43)	(1.79)	(1.34)
0×GIA	0.00879	0.0588	0.0138*	0.00855	0.0169*	0.0213
	(1.05)	(1.28)	(2.15)	(0.20)	(2.44)	(0.49)
1×GIA	0.0168*	0.0656	0.0174*	0.0562	0.0189**	0.0649
	(2.23)	(1.34)	(2.53)	(1.31)	(2.75)	(1.56)
2×GIA	0.00977	0.0115	0.0115	0.0561	0.0136	0.0351
	(1.33)	(0.22)	(1.78)	(1.18)	(1.92)	(0.79)
3×GIA	0.00254	0.0817	0.00978	0.0780	0.0118	0.100*
	(0.30)	(1.76)	(1.52)	(1.89)	(1.58)	(2.28)
4×GIA	0.0159*	0.120*	0.0103	0.0689	0.0160*	0.107*
	(2.17)	(2.50)	(1.70)	(1.60)	(2.41)	(2.49)

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The table presents coefficients on the interaction term from $y_{i,t} = \alpha + \sum_{d=-7}^{12} \beta_d \mathbf{1}_{t=d} + \sum_{d=-7}^{12} \delta_d \mathbf{1}_{t=d} \times GIA_{i,t} + \Gamma_i + u_{i,t}$, for the days within the FOMC window. The dependent variable is the stock-level net capital flow or stock return. The net capital flow records the difference between buy and sell amounts for orders exceeding 1 million *yuan*. The unit for net capital flow is the number of standard deviations from the mean; the unit for the stock return is percentage points.

2. The low performance is primarily attributable to large capitalization firms.

3. Weak corporate governance explains part of the low performance, measured by the Governance Index–A (GI-A), where a lower GI-A indicates weaker governance.

4. China's stock market return is negatively correlated with GDP growth.

In Section 3.4, we have shown that weaker corporate governance is associated with a deeper dive during the FOMC announcement window. In this section, we relate the FOMC cycle to each of the remaining facts in turn.

Fact 1: Lower A-share returns. Figure 10 compares the cumulative returns over the FOMC cycle for China's A-share market, the U.S. market, and U.S.-listed Chinese stocks. The A-share index is the LSY market factor. The U.S. market index is the Fama-French market index obtained from Kenneth R. French's website. The U.S.-listed Chinese stock index is the NASDAQ Golden Dragon China Index (NASDAQ HXC). We use the 2007-2024 sample period for all indices.

The A-share market exhibits a pronounced decline in the $[-8, 4]$ window, whereas this pattern is largely absent in the other two markets. The U.S. market index remains almost constant in the week leading up to the FOMC announcement and gradually drifts upward on the announcement day. The divergence results in a return gap of nearly 2% by the 4^{th} day after the FOMC announcement. In contrast, both the A-share and U.S. market indices grow during the non-window episode. Between days +4 and +12, A-share grows even faster than the U.S. market.

The dynamics of U.S.-listed Chinese stocks lie between the A-share and the U.S. market during the $[-8, 4]$ window. Instead of a consistent drop, the Golden Dragon index increases between days -8 and -4, declines between -4 and -1, and, importantly, spikes up on the announcement day. In total, U.S.-listed Chinese stocks decline during the window, but to a lesser extent than A-share stocks. This likely reflects a combination of the underlying cash-flow channel, as in the case of Hong Kong–listed Chinese stocks, and the governance and market-institution channel emphasized by Allen et al. (2024). On the other hand, the A-share index grows more than the Golden Dragon index outside the $[-8, 4]$ window.

In summary, A-shares systematically underperform U.S. stocks in the $[-8, 4]$ window around the FOMC announcement but not outside it. The low-performance puzzle can be

explained by the differential returns in the A-share and U.S. markets within the announcement window.

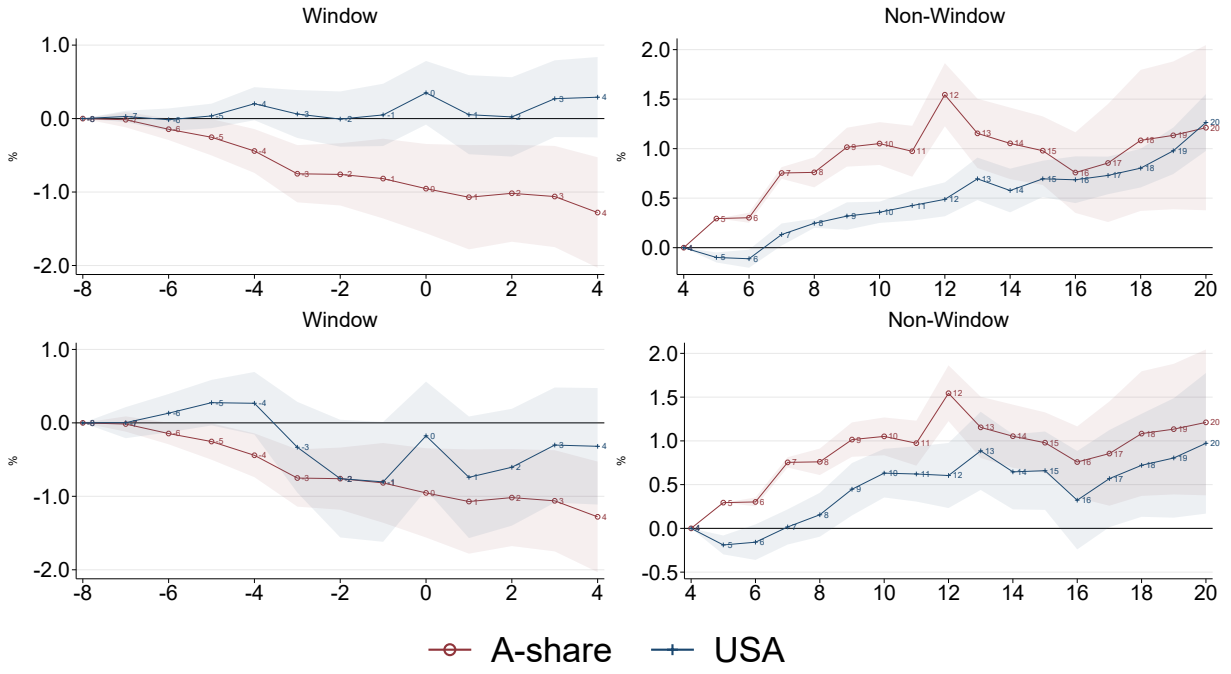


Figure 10: A-share and U.S. cumulative returns over an FOMC cycle.

Notes. The top panel compares the A-share (LSY) with the U.S. market (Fama-French market return) index returns over an FOMC cycle, and the bottom panel compares the A-share with the U.S.-listed Chinese stock returns (NASDAQ HXC).

Fact 2: Large-cap underperformance. Following Allen et al. (2024), we sort A-share stocks into large-, medium-, and small-cap portfolios each year, where large- and small-cap stocks are defined as the top and bottom 30% of the cross-sectional size distribution, respectively. We compare the average annual returns of each size group within or outside the $[-8, 4]$ FOMC announcement window.

Table 3 shows the average annual returns of different size groups within or outside the FOMC announcement windows. Within the windows, medium- and large-cap firms decline by 8.64% every year, while small-cap firms decline by 1.80% less, and the difference is statistically highly significant. Outside the windows, medium- and large-cap firms grow by

5.89% annually, while the small-cap firms grow by 4.40% more. Comparing small-cap with large-cap firms, the small-cap firms decline by 1.4% less within the announcement window, and 5.87% more outside the announcement window. Notably, the growth rate of small-cap firms more than doubles that of large-cap firms outside the announcement window.

Table 3: Annual returns on size portfolios over FOMC cycles.

	small v all, window	big v all, window	small v all, nonwin	big v all, nonwin	small v big, window	small v big, nonwin
small	1.80***		4.40***		1.47***	5.87***
	(0.34)		(0.34)		(0.39)	(0.39)
big		-0.29		-3.97***		
		(0.31)		(0.32)		
const.	-8.64***	-8.02***	5.89***	8.40***	-8.31***	4.43***
	(0.17)	(0.18)	(0.18)	(0.19)	(0.25)	(0.26)
N	40860	40860	41202	41202	24439	24648

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Notes. The first four columns compare small-cap or large-cap firms with the other two groups. The last two columns compare small-cap firms with large-cap firms.

Fact 4: Negative correlation with GDP growth. Following Allen et al. (2024), we estimate the Pearson correlation between five-year stock returns and future GDP growth rates, $\mathbf{corr}(r_{t,t+4}, \Delta \ln GDP_{t+1,t+5})$, where each t denotes a year. For the stock returns, we consider the three strategies considered in Table 1: the buy-and-hold strategy (all days), holding the market index during the $[-8, 4]$ window (FOMC window), and holding the index outside the $[-8, 4]$ window (non-FOMC window).

In Table 4, we present the stock-GDP correlations in China and the U.S. over the period 2007-2024. In China, the overall stock-GDP correlation is negative, consistent with the finding of Allen et al. (2024) using the sample period from 1991 to 2018. Decomposing the overall stock return into the FOMC-window return and the non-FOMC return, we find that the negative stock-GDP correlation is explained by the stock returns within the FOMC windows. Intuitively, the Chinese stock market index has declined systematically during the sample period, while its GDP has grown steadily. Since the Chinese stock market index recovers outside the FOMC window, the stock-GDP correlation turns positive.

Table 4: Correlations between five-year stock returns and future GDP growth rates.

	All Days		FOMC Window		Non-FOMC Window	
	corr	pval	corr	pval	corr	pval
CHN	-0.73	0.00	-0.86	0.00	0.43	0.13
USA	0.36	0.23	-0.62	0.03	0.73	0.00

Notes. The table presents the Pearson correlation between five-year stock returns and future GDP growth rates, $\mathbf{corr}(r_{t,t+4}, \Delta \ln GDP_{t+1,t+5})$. For the stock returns, we consider the following strategies: the buy-and-hold strategy (all days), holding the market index during the $[-8, 4]$ window (FOMC window), and holding the index outside the $[-8, 4]$ window (non-FOMC window).

5 Conclusion

This paper documents a new link between U.S. monetary policy and China's stock market. Using daily data from 2007 to 2024, we demonstrate that Chinese A-share returns exhibit a pronounced V-shaped pattern around FOMC announcements: the market declines steadily from eight trading days prior to the announcement through four trading days afterward, and then recovers over the following week and a half. This pattern stands in stark contrast to the positive pre-FOMC drift observed in the U.S. and other foreign markets, and is absent around major domestic political events in China.

From a broader perspective, our findings highlight that global monetary policy spillovers can operate through channels that extend beyond standard interest rate and exchange rate linkages. In China's case, FOMC-related uncertainty is transmitted into expected cash flows, amplified by corporate governance frictions, and intermediated by institutional investors who reallocate capital away from firms perceived as fragile. For policymakers, our results suggest that strengthening governance and investor protection could reduce the sensitivity of domestic equity markets to foreign policy uncertainty. For global investors, they underscore that avoiding the FOMC announcement window in China is not merely a statistical curiosity but a robust way to improve risk-adjusted performance.

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A1 Subsample Analysis

Table A1: Summary statistics of trading strategies over subsamples.

	Mean	SD	Sharpe	Cum. Return	Mean	SD	Sharpe	Cum. Return
				2007–2024				
			SH				SZ	
All days	0.02	0.33	0.06	0.71	0.05	0.44	0.11	0.72
Window	-0.10	0.15	-0.64	0.15	-0.08	0.17	-0.49	0.20
Non-window	0.12	0.31	0.39	4.75	0.13	0.42	0.30	3.63
			CSI				LSY	
All days	0.05	0.39	0.13	0.89	0.05	0.35	0.15	1.19
Window	-0.09	0.16	-0.54	0.17	-0.08	0.16	-0.53	0.20
Non-window	0.14	0.37	0.37	5.20	0.14	0.33	0.42	6.08
				2007–2010				
			SH				SZ	
All days	0.10	0.63	0.16	0.72	0.30	0.81	0.37	1.12
Window	-0.23	0.22	-1.08	0.32	-0.21	0.21	-1.03	0.36
Non-window	0.36	0.60	0.60	2.25	0.54	0.76	0.71	3.11
			CSI				LSY	
All days	0.20	0.73	0.27	0.87	0.17	0.67	0.26	0.89
Window	-0.24	0.21	-1.15	0.31	-0.22	0.22	-1.03	0.34
Non-window	0.48	0.71	0.67	2.76	0.43	0.63	0.68	2.64
				2011–2024				
			SH				SZ	
All days	-0.00	0.21	-0.02	0.99	-0.02	0.27	-0.09	0.64
Window	-0.06	0.11	-0.53	0.47	-0.04	0.14	-0.31	0.55
Non-window	0.05	0.13	0.39	2.11	0.01	0.16	0.05	1.17
			CSI				LSY	
All days	0.01	0.25	0.03	1.02	0.02	0.22	0.09	1.33
Window	-0.04	0.13	-0.36	0.54	-0.04	0.11	-0.37	0.58
Non-window	0.04	0.14	0.30	1.89	0.06	0.14	0.42	2.30

Notes. The first panel reproduces Table 1. Then, we split the 2007-2024 sample by 2010 and compute the summary statistics on each subsample.

A2 Chinese Stock Returns Around ECB Announcements

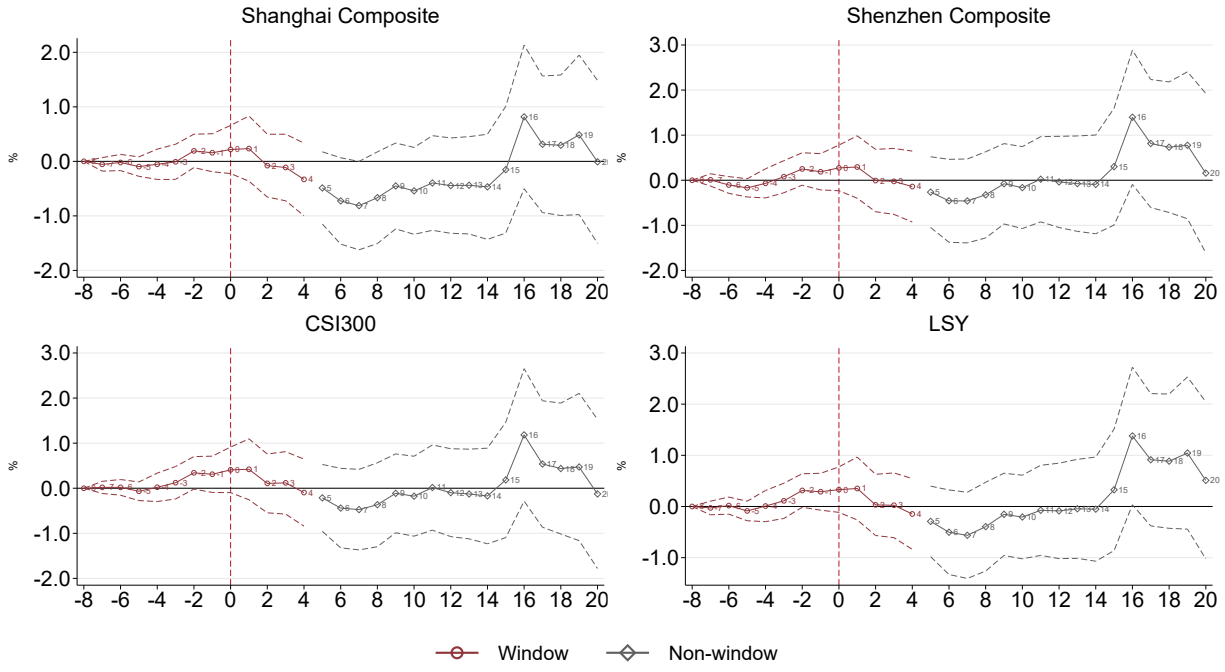


Figure A1: Average cumulative stock returns over an ECB cycle.

*Notes.*The figure plots average cumulative returns of China's stock market indices over an ECB announcement cycle and the 95% confidence interval. The horizontal axis denotes days from the ECB monetary policy announcement. The market indices include the Shanghai Composite Index, Shenzhen Composite Index, Shanghai Shenzhen CSI 300 (CSI300) Index, and the market return from Liu et al. (2019) (LSY). The sample period is from 2007 to 2024.