



Global Investment Research

The Goldman Sachs Group, Inc.

# The Case for a Financial Conditions Index

February 22, 2019

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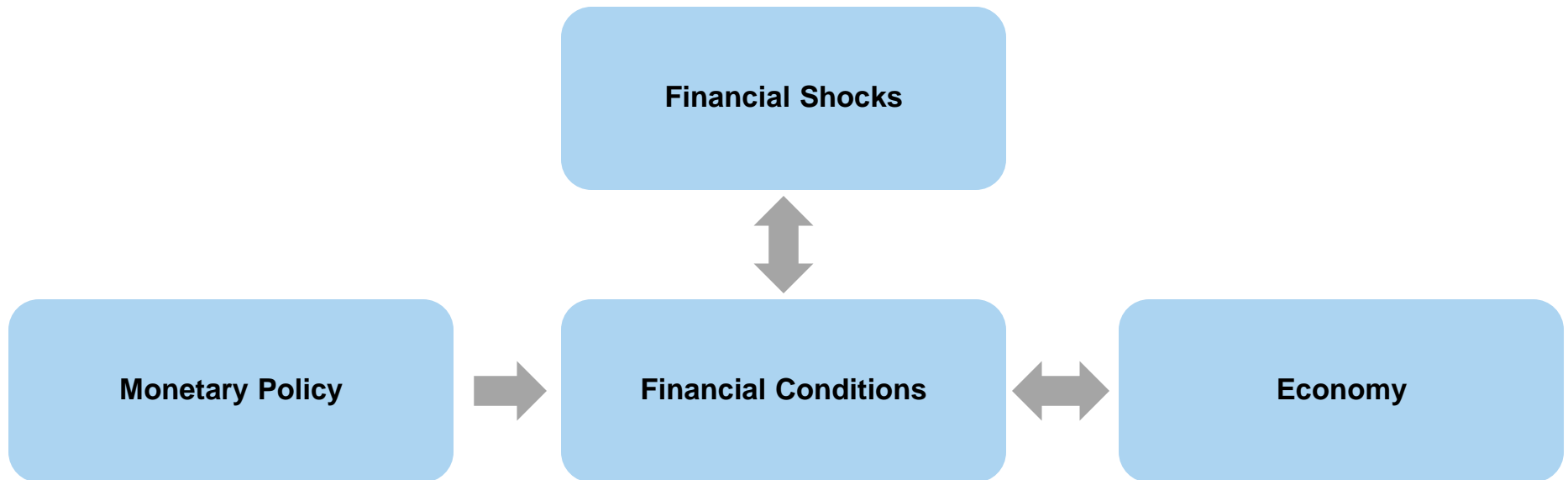
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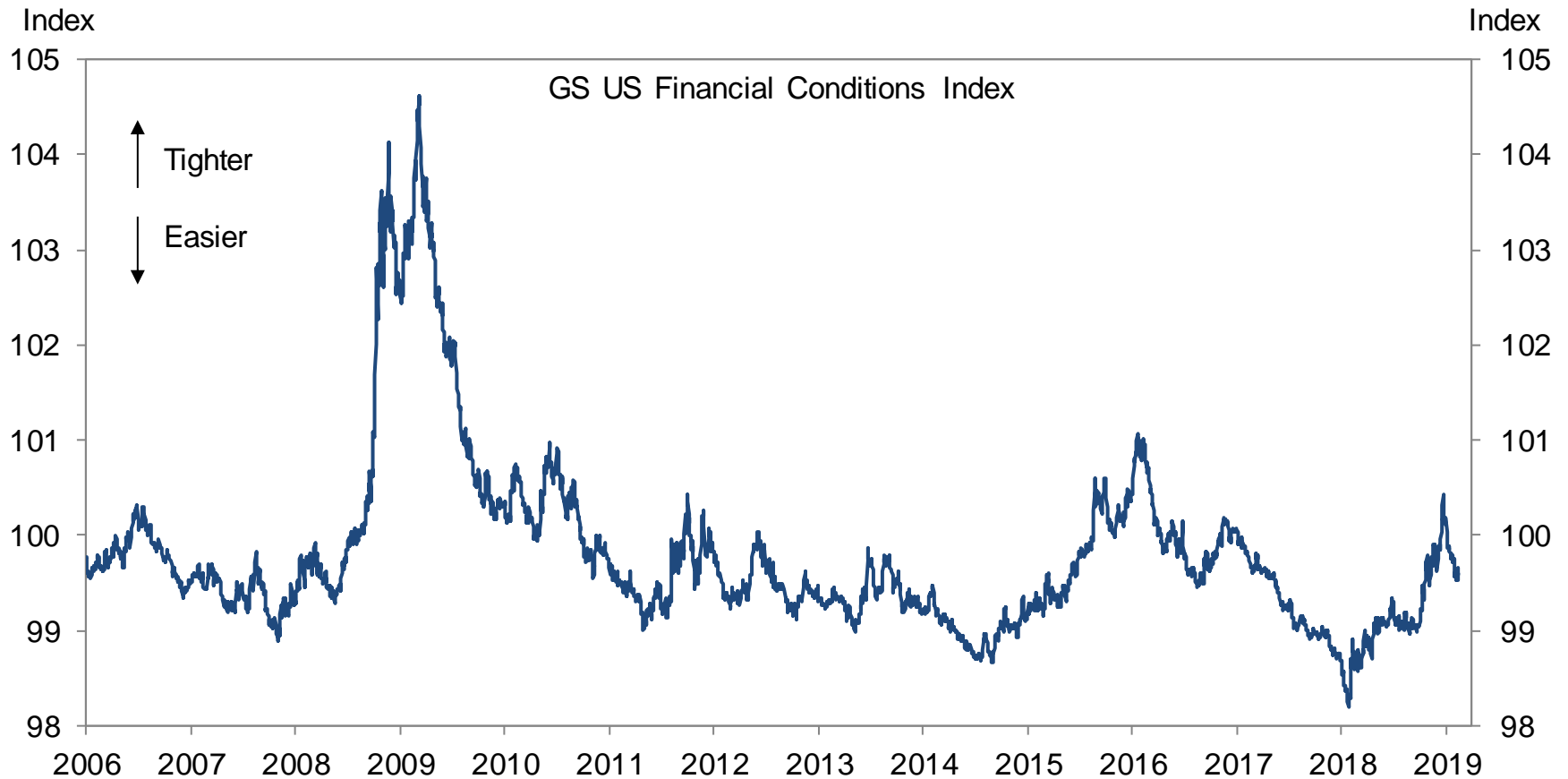
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# FCI Links Monetary Policy with the Economy



Source: Goldman Sachs Global Investment Research.

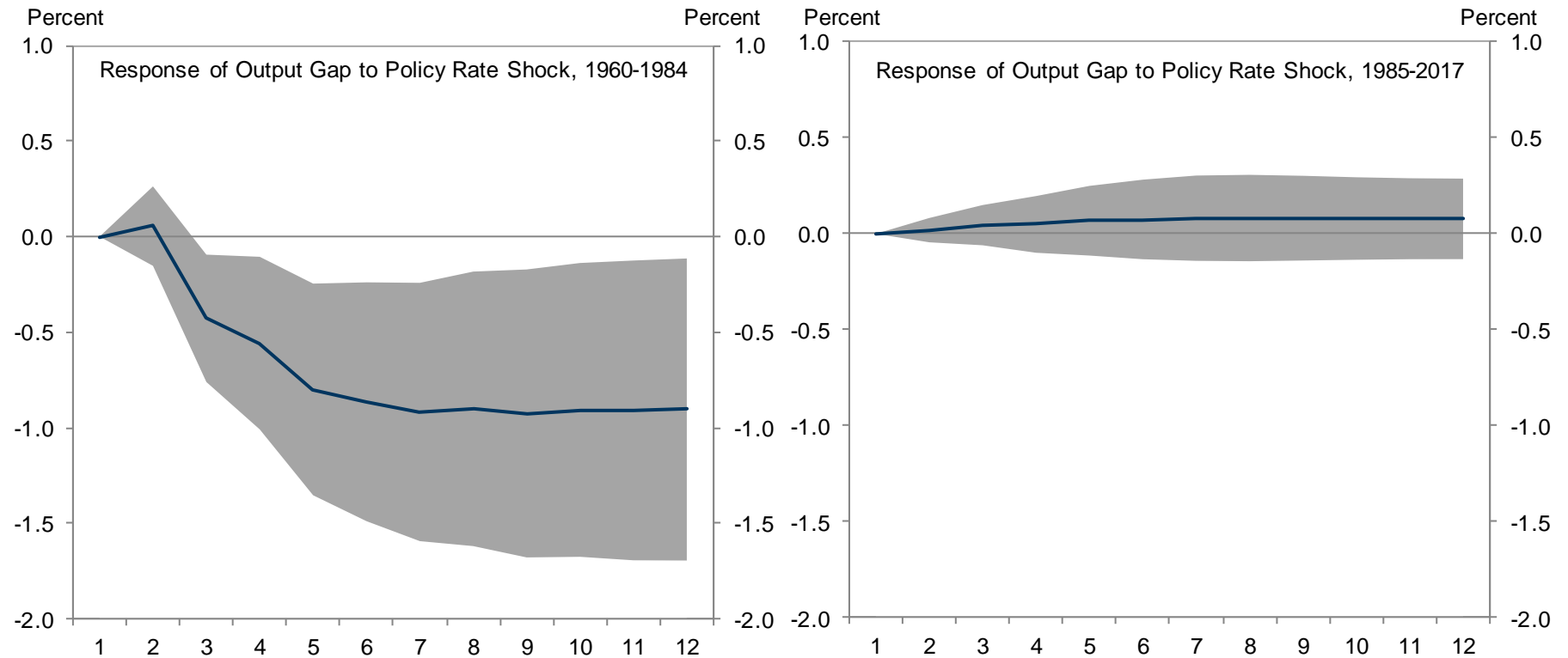
# The Goldman Sachs Financial Conditions Index



Note: Weights of FCI components are as follows: Federal Funds Rate: 4.4%, 10-Year Treasury Rate: 45.1%, BBB Credit Spread: 39.6%, Equity Prices: 4.9%, Trade-Weighted Dollar: 6.0%

Source: Goldman Sachs Global Investment Research.

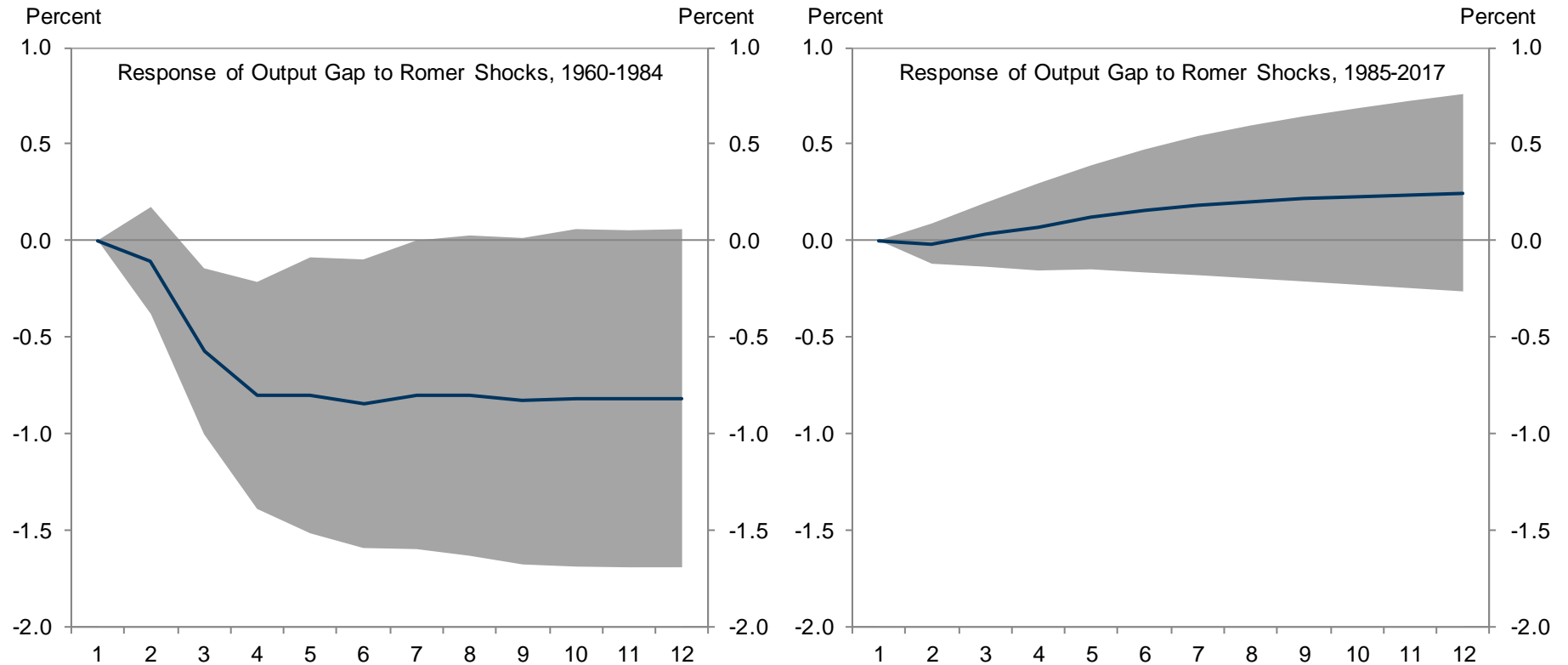
# Link Between Funds Rate and Output Gap Has Broken Down...



Note: The horizontal axes denote quarters and the gray areas show +/- 2 standard error bands.

Source: Goldman Sachs Global Investment Research.

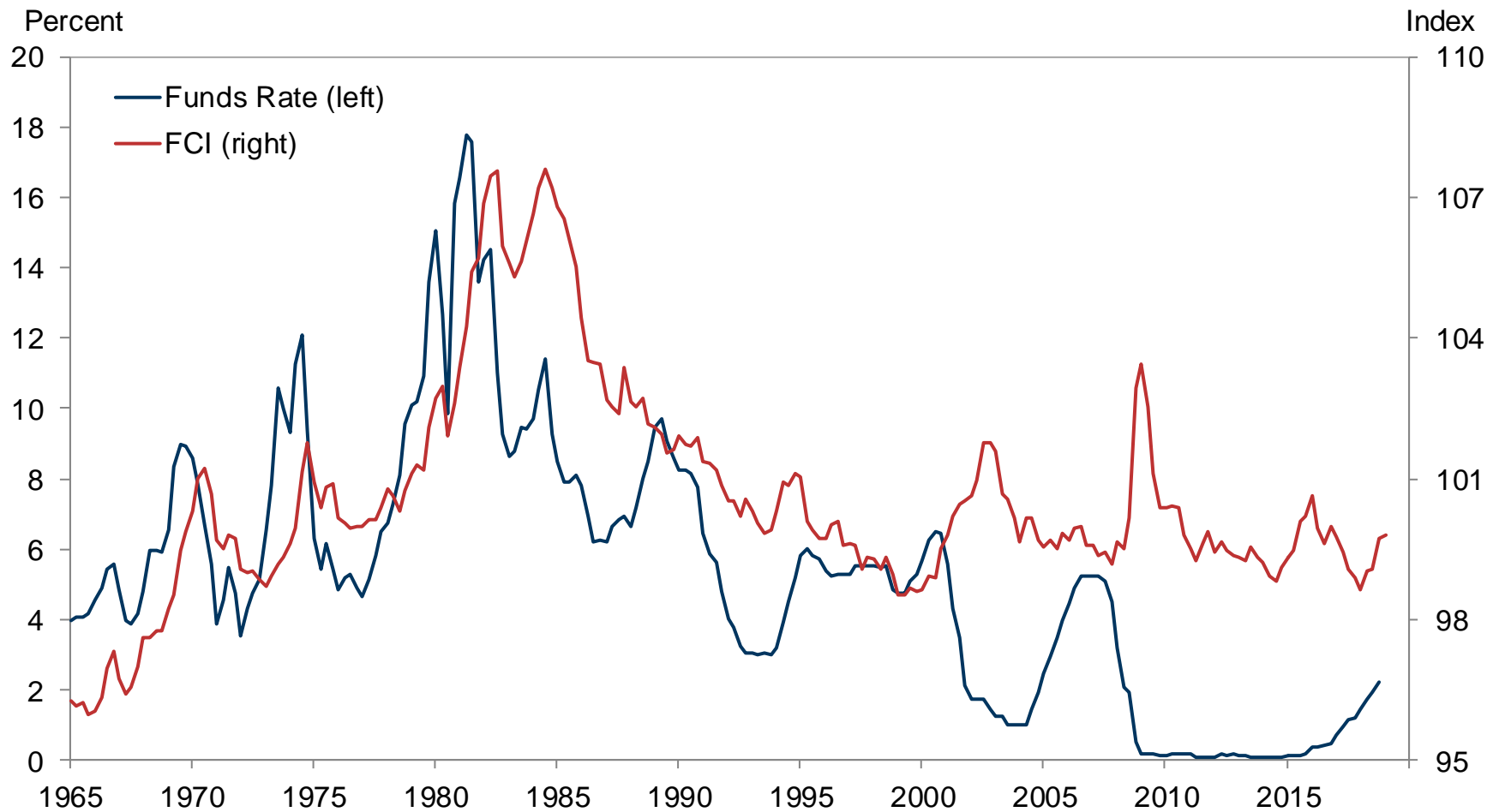
# ...Even If We Use Romer-Romer Shocks



Note: The horizontal axes denote quarters and the gray areas show +/- 2 standard error bands.

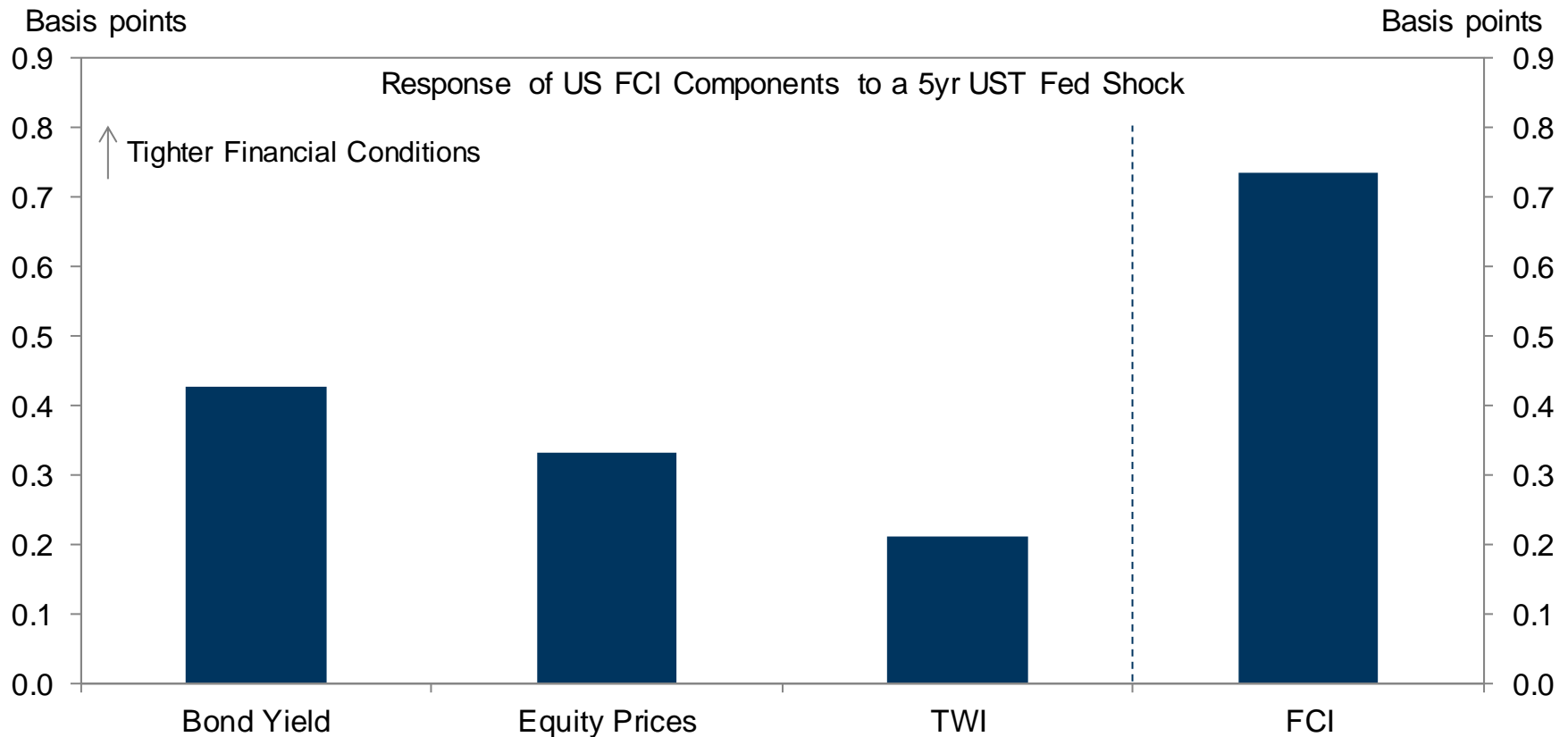
Source: Goldman Sachs Global Investment Research.

# Link Between Funds Rate and FCI Has Loosened



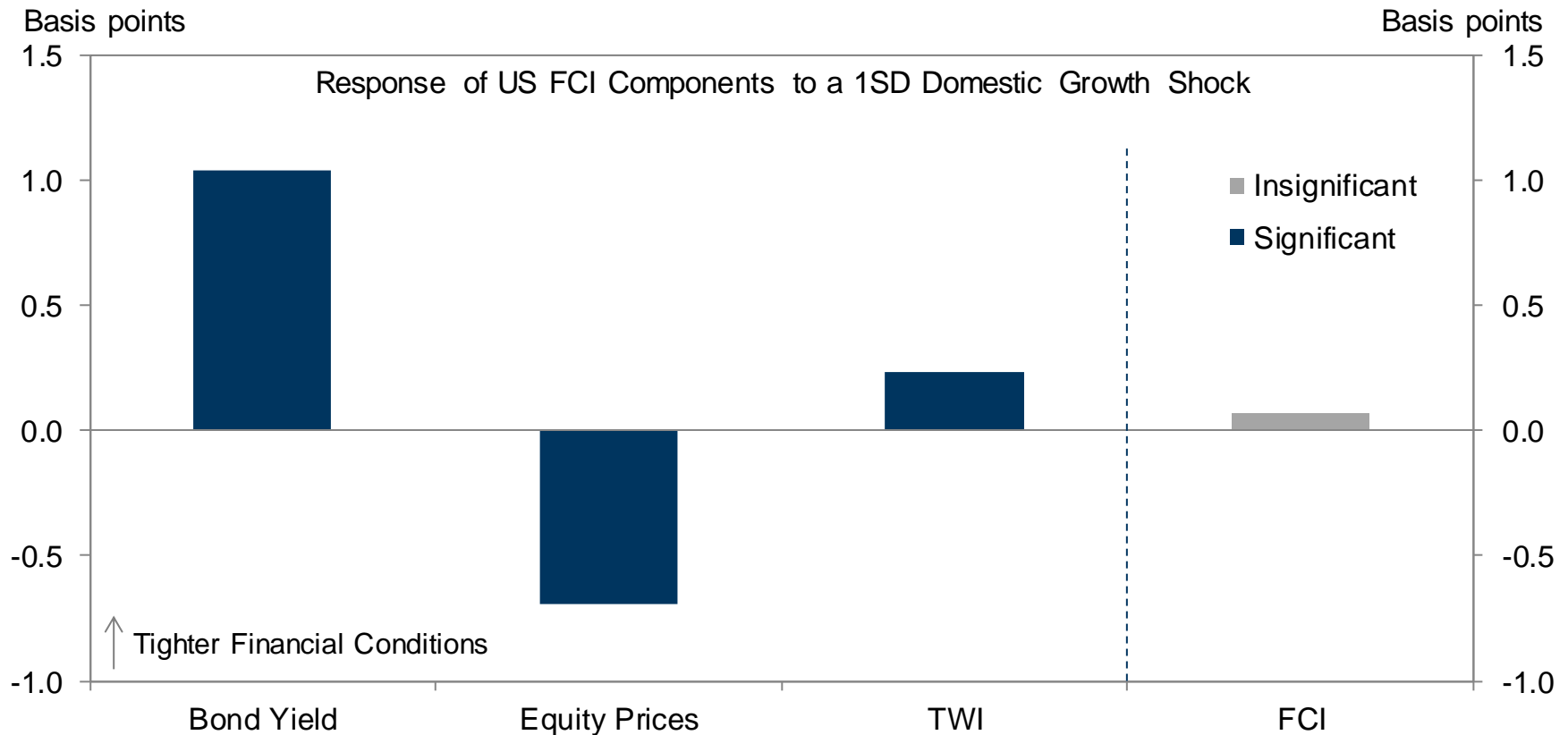
Source: Goldman Sachs Global Investment Research.

# Policy Shocks Have Large Effects on Financial Conditions



*Note: Bars denote estimated daily response of FCI and its components (scaled to FCI contributions) to a +1bp shock in 5yr UST, measured as the change in yield in one-hour windows around FOMC announcements. All estimates are statistically significant at the 1% level.*

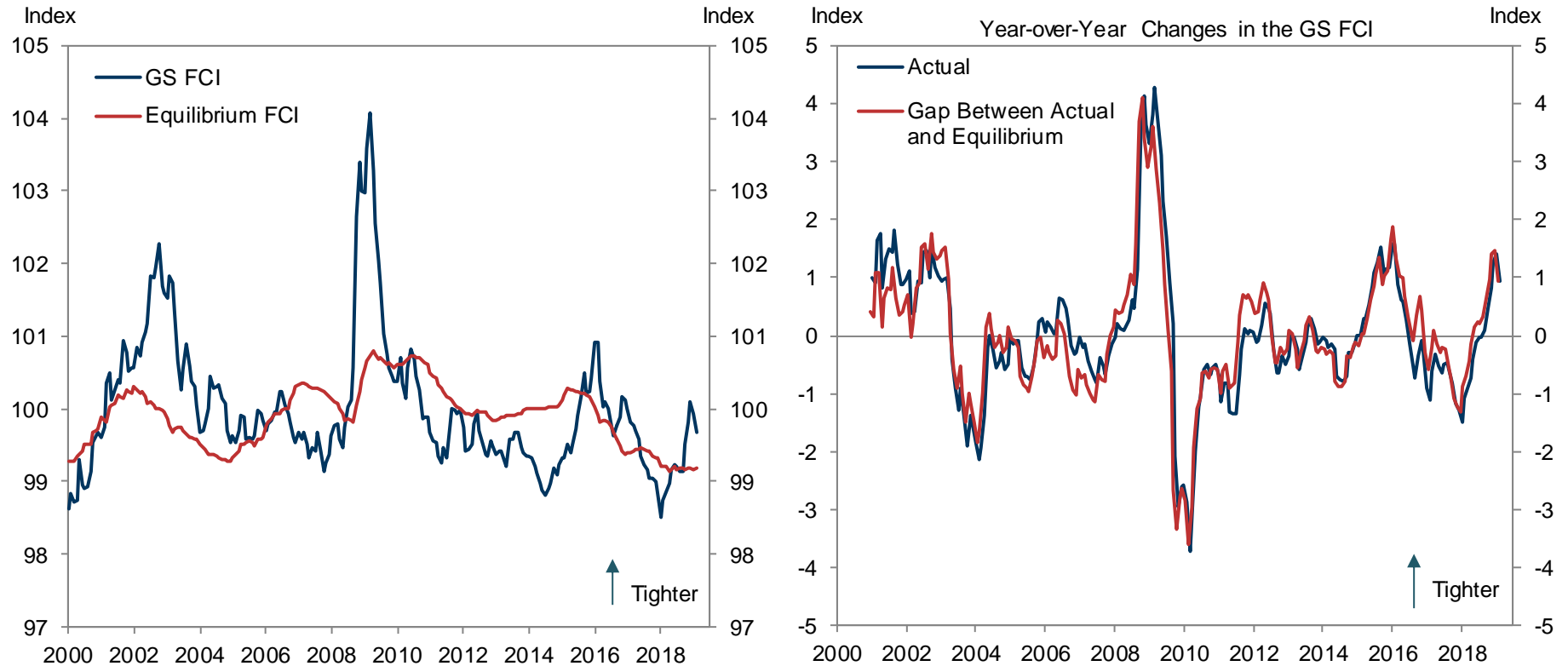
# Growth Shocks Have Small/Offsetting Effects on Financial Conditions



Note: Bars denote estimated response of FCI and its components (scaled to FCI contributions) to economic data surprises, measured relative to Bloomberg consensus forecasts. Statistically significant estimates at the 5% level are shown in blue and insignificant responses in gray.

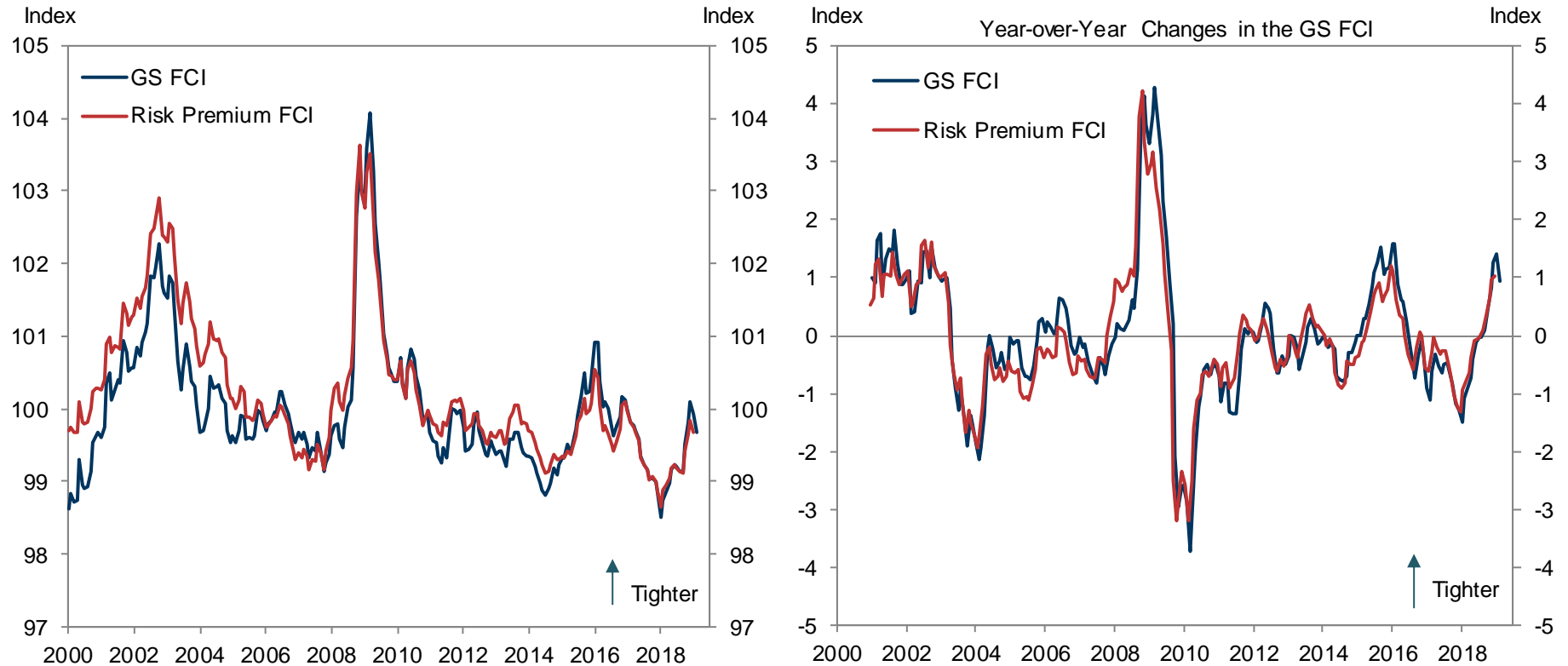


# “Equilibrium” Forces Account for Only a Small Share of FCI Variation, Especially in the Short Term



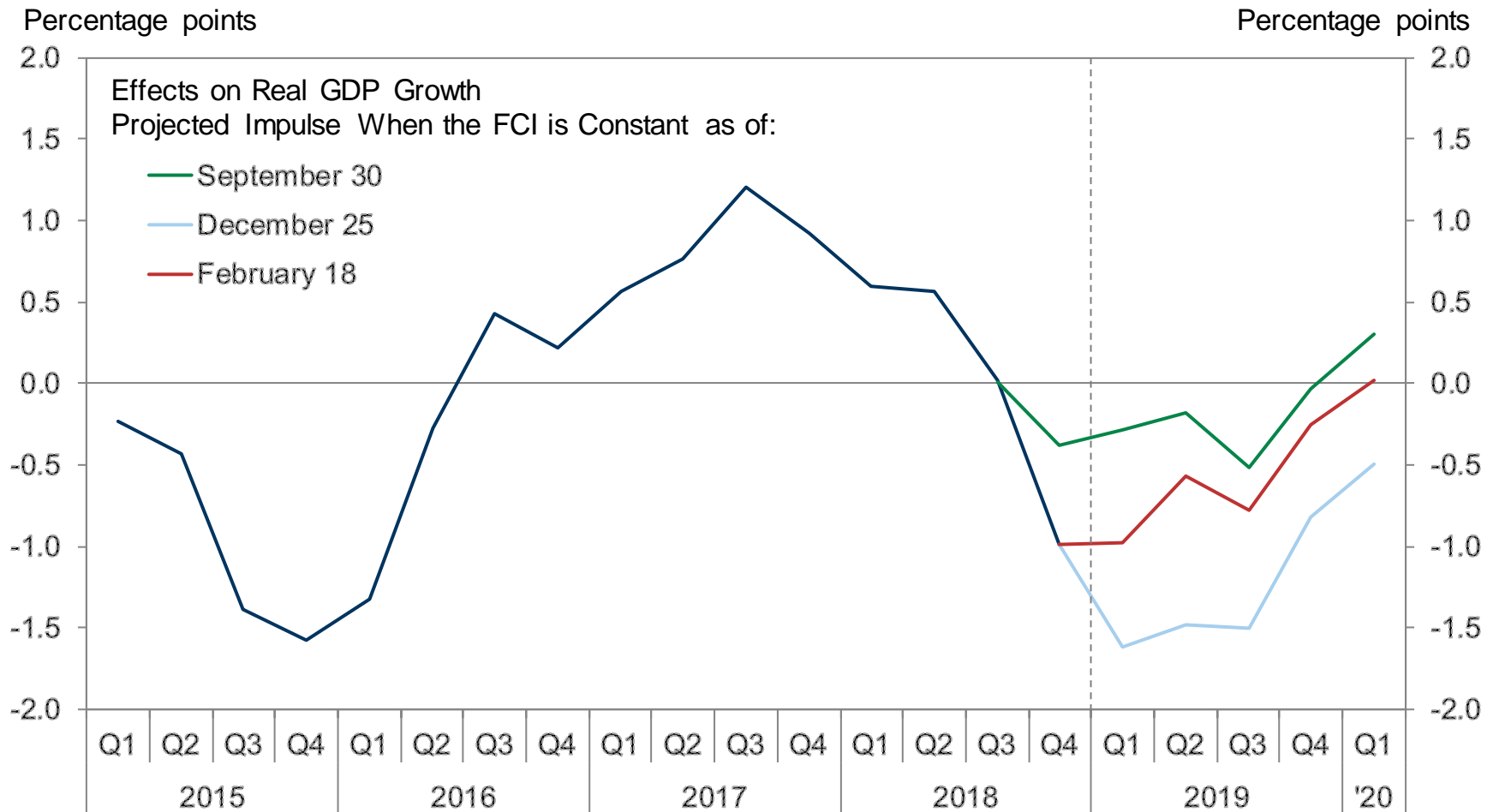
Source: Goldman Sachs Global Investment Research.

# Risk Premia Account for a Large Share of FCI Variation, Especially in the Short Term



Source: Goldman Sachs Global Investment Research.

# Negative FCI Impulse Looked Too Small in September, Too Big in December



Source: Goldman Sachs Global Investment Research.

# Disclosure Appendix

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