

Impact of Political Agendas & Monetary Policy on Asset Prices

Kailin Rao*

Faculty of Business, The Hong Kong Polytechnic University, Hong Kong, China

* Corresponding Author Email: 19102006g@connect.polyu.hk

Abstract. The free flow of capital and the interconnectedness of the global financial system have made the United States the center of the global capital market, and the Fed's policy adjustments have significant impacts on asset prices and market liquidity worldwide. This paper aims to verify the spillover effects and transmission channels of the Fed's monetary policy through a literature review, curve fitting, qualitative and empirical analysis. The results confirm the existence of spillover effects and identify four different ways in which the Fed's monetary policy affects the Chinese and US capital markets. The paper concludes by giving investment advice in response to the approaching monetary policy expectations of the Fed and the outbreak of global economic recovery. The pandemic has caused major central banks to conduct non-normalized easing operations, leading to a significant rise in global asset prices. The paper also explores China's reaction to the Fed's monetary policy in different periods and its implications for individual investors and government management of the financial market. As the world gradually returns to normal with the progress of vaccination, the paper hopes for a calm and orderly capital market.

Keywords: Monetary policy; spillover effects; asset prices.

1. Introduction

Global capital markets were shaken by the COVID-19 outbreak in early 2020, but major economies' capital markets started to recover after the Federal Reserve lowered the federal funds rate to 0-0.25% and launched a \$700 billion quantitative easing program. In particular, given that the United States has the largest economy, and the U.S. dollar enjoys a favorable position in the global monetary system, the monetary policy of one nation can have an impact on the macroeconomics of other nations. Despite a panic sell-off following the Spring Festival, Chinese stock markets did well in 2020. Quantitative easing was also used by the Bank of Japan and the European Central Bank to adjust to monetary policy developments on a global scale. Central banks all around the world will increase interest rates as the impact of the epidemic lessens and the Fed tightens monetary policy, which will have a big effect on their local economy.

In order to evaluate and forecast the impact and influence of changes in foreign monetary policy on stock prices in the Chinese financial market, the article examines how the response of Chinese capital market stock prices to various scenarios of Fed rate hikes and rate cuts. Due to economic globalization and the dominance of the U.S. dollar in the global economy, the Federal Reserve's monetary policy can easily affect the stability of the Chinese financial market. Maintaining the stability of the Chinese financial system and preventing systemic risks require research on the transmission mechanism and spillover effects of U.S. monetary policy. The stock market has developed into a crucial tool for company finance and economic growth as well as a "barometer" of the country's economy.

2. Literature Review

2.1. Spillover Effects of Monetary Policy

The majority of academics' conclusions from the research indicate that monetary policy in one nation does have an impact on monetary policy in other countries. Lastrapes confirms that when the Federal Reserve adopts an accommodating monetary policy, there is an increasing tendency in stock values in seven important countries using vector autoregressive models. According to research by

Banerjee et al., tightening monetary policy in the United States has a negative impact on cross-border capital inflows and outflows as well as on GDP growth and exchange rate depreciation in emerging market economies. Additionally, empirical studies demonstrate that the liquidity produced by the second and third rounds of quantitative easing primarily influence emerging economies, while the liquidity produced by the first round of quantitative easing primarily flows to riskier capital markets, such as the U.S. stock market. According to Kimiko and Takashi, Asian markets are the ones that are most affected by conventional and unconventional monetary policies, and the degree to which this impact grows is determined by the tools utilized for monetary policy and the risk aversion of investors. On the other hand, Carlberg concludes that whereas fiscal policy has positive spillover effects, monetary policy of the Fed has negative spillover effects on Europe. Studies conducted domestically have concentrated on China's reaction to the Fed's adoption or discontinuation of quantitative easing. Chinese interest rates fluctuate in reaction to changes in American interest rates, according to research by Xing and Tang using a structural vector autoregressive model to examine how American monetary policy affects Chinese monetary policy [1]. Zhang discovers through daily data analysis that the unexpected monetary policy of the United States has a major impact on Chinese SHIBOR and corporate bond yields to maturity. However, Ni contends that the consequences of U.S. monetary policy spillovers fluctuate considerably over time, particularly when there is a directional shift that significantly affects China's production growth [2]. According to Chen and Sun, the US's quantitative easing monetary policy has a favorable effect on China's output and prices, with the former having a stronger effect than the latter. Wu and Liu provide evidence that monetary policy in the United States can have an impact on macroeconomic factors like imports and exports, inflation, and output in other nations [3]. Tang and Zhu use data on the federal funds rate and periods of the Chinese financial market to confirm that the impacts of the Fed's change in monetary policy on the Chinese financial market vary and exhibit asymmetry at different quartiles [4].

2.2. Transmission Mechanism and Channel of Spillover Effect

Studies on the channels of monetary policy spillovers differ slightly between Chinese and foreign scholars, but mostly focus on interest rates, exchange rates, and trade. Economists Curcuru et al. argue that the main channels of monetary policy spillovers are exchange rates, domestic demand, and financial markets. Asian economists such as Kim et al. argue that the spillover effects of the Fed on emerging economies are nonlinear and asymmetric. According to Obstfeld and Rogoff, trade and exchange rate channels are the keyways that a nation's monetary policy affects the macroeconomics of other nations. Lindner et al. use the example of German and Austrian banks to confirm that the more a country's banks are funded in dollars, the more its domestic real sector lending is affected by US. Skovorodov demonstrates two channels of monetary policy transmission are more obvious: credit supply and expectation channels including periods of unconventional monetary policy. Kim provides evidence that shocks to the U.S. expansionary monetary policy cause booms in the G-6 nations. Changes in the trade balance appear to be less significant in this transmission than a decline in the global real interest rate. Domestic researchers contend that under open economy conditions, a country's monetary policy primarily influences the economies of other nations through the channels of money supply, interest rates, exchange rates, and international commerce. Although interest rates, exchange rates, and commodity prices are all ultimately realized through international trade and cross-border capital flows, Yang and Zheng contend that there are multiple channels through which the monetary policies of large countries have an impact on Southeast Asian nations. As a result, there are two major channels through which this impact is transmitted: cross-border capital flows and international trade [5]. Zhang identifies the interest rate channel, the credit channel, the currency channel, the exchange rate channel, the wealth channel, and the central bank information communication channel as the international transmission channels of monetary policy. He emphasizes that these transmission channels can cooperate and cannot be disregarded. According to Zhu et al.'s study, the relative strength of the U.S. and global economies is the most fundamental factor that affects the change in commodity prices. Commodity prices are the primary channel of

transmission of the spillover effect of the U.S. dollar interest rate hike on China [6]. According to the three paths of the interest rate channel, price channel, and monetary expansion channel, Ouyang and Zhang predicted that the U.S. monetary policy will cause shocks to the RMB exchange rate. Furthermore, the RMB exchange rate volatility is more significantly affected by the shock effect of the Fed benchmark interest rate and the U.S. dollar index. However, Zhan et al. argued that while U.S. monetary policy shocks had a significant positive impact on Chinese inflation and output prior to the 2008 financial crisis, they primarily did so through the exchange rate channel. Following the financial crisis, they primarily had a negative impact on Chinese macroeconomic output and prices through the base money channel.

2.3. The Effect of Monetary Policy on Stock Prices

There is no question that fluctuations in asset values are correlated with changes in a nation's monetary policy. Only unexpected monetary policy, according to Bernanke and Kuttner, will have a major impact on stock investment returns. The price of the US stock market decreased by 0.5 percentage points on average for every one percentage point increase in the federal funds rate, according to research by Ehrmann and Fratzscher on the effects of US monetary policy changes on 50 major stock markets worldwide. Additionally, Wong chose 15 nations from Europe, Asia, and Latin America and discovered that, on average, the stock price index of these 15 nations would drop by 0.5 to 2.5 percentage points with every 25-basis point decline in the foreign federal funds rate. According to Blot et al., since monetary policy's impacts are asymmetric, differentiating between responses to contractionary and expansionary shocks is necessary. Restrictive monetary policy has more of an impact than expansionary monetary policy. These results imply that unexpected Fed monetary policy changes have an impact on asset values globally, with restrictive monetary policy having a stronger impact than expansionary monetary policy. In terms of pertinent local research, Yuan shows that, while the impact of economic factors like inflation and GDP in the U.S. is more pronounced in the medium and long terms, U.S. monetary policy can have a considerable short-term impact on the real returns of the Chinese stock market. According to Ding et al., there is a correlation between China's monetary policy and stock prices, with the money supply having a positive long-term correlation with stock prices and interest rates having a negative long-term correlation with stock prices, but both have temporal lag effects. According to Li and Yu, the United States' quantitative easing monetary policy has a long-lasting and stable impact on the BRICS nations, especially in the short term. This effect raises the real economic output of these nations, aids in the strengthening of their currencies, and fosters their virtual economic prosperity. In the long term, positive shocks to U.S. monetary policy and negative shocks to Chinese monetary policy, but both with time lag effects, are the time-varying spillover effects of U.S. and Chinese monetary policy, according to Zhu et al. [7]. According to Ding et al., changes in US investment market yields cause shocks with distinct features to the Chinese market, and tight monetary policy in the US serves as a short-term downward catalyst for the Chinese price system.

According to previous research surveys by Chinese and foreign scholars, on the issue of monetary policy spillover effects, most of the conclusions are affirming its existence [8]. Due to economic globalization, monetary policy changes in major economies, especially in the United States, are bound to cause chain reactions in the capital markets of other countries. By reiterating the earlier findings, we can see that there are numerous international transmission channels for monetary policy, including interest rates, exchange rates, asset prices, trade, capital flows, and other channels, with only minor variations in focus between different scholars [9]. Regarding the influence of monetary policy on the stock market, the majority of opinions hold that the Fed's unexpected adjustment to its monetary policy will inevitably result in changes in asset prices, but there may be a time lag effect, or the response may not be immediately apparent due to the differences in the underlying assets and the degree of linkage. Few studies have been done on the effects of the Fed's monetary policy on the Chinese economy, which is generally the focus of foreign literature on the effects of the Fed's monetary policy on the monetary policies of the world's rising countries [10]. Therefore, the

innovation of this paper is to analyze the long-term/short-term impact of the Fed's monetary policy on Chinese capital market, especially stock prices, and the transmission channels.

3. Situation Analysis

This section will explore the causes and subsequent effects of the Fed's monetary policy adjustments based on its complete "rate hike-rate cut" cycle during 2015-2020, together with the use of relevant data and graphs. The correlation between the monetary policy trend and the response of Chinese capital market will also be observed to explore the internal relationship.

3.1. Causes of the Fed's Monetary Policy

The start of the U.S. subprime mortgage crisis had a negative effect on both the domestic and global economies. The Federal Reserve restarted its quantitative easing program and dropped the federal funds target rate to a low range of 0%-0.25% in an effort to strengthen the economy and stop its decline. Policy put in place is following the financial crisis. The Federal Reserve initially announced a 25-percentage point rise in the federal funds rate in February 2015, beginning a new cycle of interest rate hikes and ending the six-year period of zero interest rates as the U.S. economy gradually began to recover. The Federal Reserve has increased interest rates nine times since the beginning of the current rate hike cycle in December 2015 and launched a balance sheet reduction program, progressively phasing out the unconventional quantitative easing monetary policy that was implemented following the financial crisis.

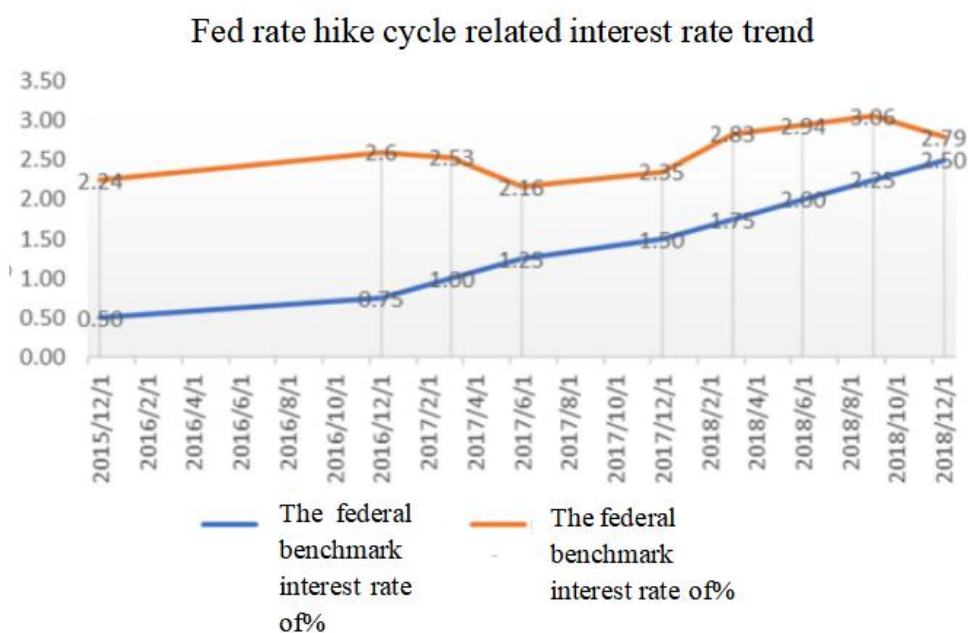


Fig 1. Interest rate trends related to the Fed's rate hike cycle.

Both the federal funds rate and the yield on the 10-year U.S. Treasury note are trending upward in Figure 1, as the Fed raises rates and decreases the amount of bonds it is repurchasing. When the Fed steadily raises interest rates to gradually remove liquidity from the market, there is a positive link between the federal funds rate and long-term Treasury yields. Unlike the gradual interest rate cuts during the subprime crisis, black swan events occurred frequently in the context of the COVID-19 outbreak, and U.S. stocks trigger circuit breakers continuously. Faced with the possibility of catastrophic consequences of the outbreak of the COVID-19 to the U.S. economy, the Federal Reserve frequently started two emergency operations in March to cut interest rates to zero, restarting "quantitative easing". According to this, U.S.10-year Treasury yields also slumped to less than 1% with the emergency policy, and fluctuate slightly at very low interest rates.

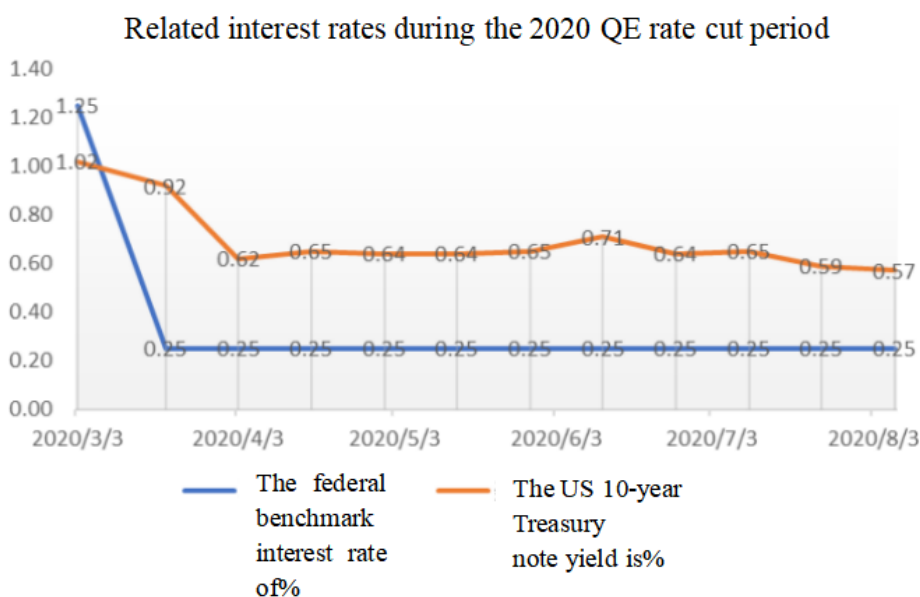


Fig 2. Related interest rate trend during the QE rate cut in 2020.

As shown in Figure 2, the Federal Reserve has injected a lot of liquidity into the market by lowering the interest rate level and unlimited QE to stimulate consumption whose purpose were to promote rapid economic recovery. Its long-term Treasury yields maintain a downward trend in line with the federal funds rate. Aiming to economy recovery, the large amount of liquidity released by the expansionary monetary policy will have a non-negligible spillover effect in the global capital markets.

3.2. The Spillover Effect on Chinese Stock Prices

After more than two decades of development, China has evolved from the stage of establishment of securities market to the stage of establishment and innovative development of multi-level capital market. As of June 30, 2019, there were 3,648 listed companies in stock markets of Shanghai and Shenzhen, with a total market capitalization of 53.63 trillion yuan and a circulating market capitalization of 44.31 trillion yuan. At the same time, the scale of investors in the securities market is growing and its structure is being optimized. Additionally, it is playing an important role in improving the allocation of resources, promoting the conversion of enterprises, changing the financing structure, and accelerating economic development. Meanwhile, with the development of economic globalization and the vagaries of the political situation (frequent unconventional monetary policies of the Federal Reserve, trade wars between China and the United States, epidemic instability, etc.) also make the magnitude and frequency of fluctuations in Chinese stock market prices subject to external spillover effects.

It is clear from Figure 3 of the U.S. federal funds rate and the trend of the Chinese SSE Composite Index & GEM Index that the Chinese stock market displayed a fluctuating downward trend during the interest rate hike, indicating that the Fed's interest rate hike had some adverse effects on Chinese stock market prices yields when the Fed steadily raises interest rates to progressively remove market liquidity. Chinese stock market displayed a distinct downward trend after the Fed formally announced a 25-basis point interest rate hike in December 2015, and the meltdown mechanism was activated numerous times within a week. Within a year, the SSE index decreased by almost 15%. The hike in the federal funds rate caused the major Chinese stock indexes to decline in 2016 and 2017, but as the domestic economy steadily recovered, the indices began to oscillate upward. The SSE index decreased from 3,307 points at the beginning of 2018 to 2,493 points at the conclusion of the year as a result of four interest rate increases made by the Federal Reserve after the start of the year. It is clear that a contractionary monetary policy will have a detrimental effect on the prices of our stock market.

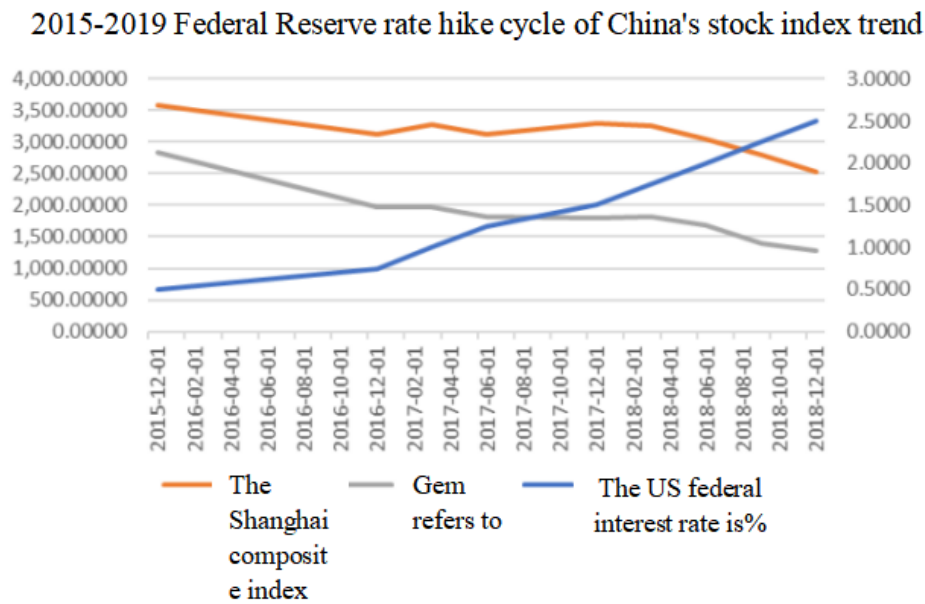


Fig 3. Trend of China's stock index in the 2015-2018 cycle.

After two regular monetary policy adjustments in 2019, financial markets ushered in the COVID-19. In March, under the successive meltdowns of U.S. stocks, the Federal Reserve cut interest rates to zero in two unconventional operations, injecting a large amount of liquidity into the market. Although the market still saw a panic sell-off at the beginning of the Fed's water release, the tight funding situation in global financial markets eased with the introduction of 700 billion in quantitative easing in mid-March, and this was a strong beginning of U.S. stock market and the Chinese share market in 2020. The Shanghai Stock Exchange Index from 2,900 points in March straight to nearly 3,500 points in December, the GEM index is up nearly 60% for the year; from Figure 4 can also be observed, the Federal Reserve to implement expansionary monetary policy, maintaining the federal funds rate at a relatively low level, the capital market stock prices in China have a certain role in promoting.

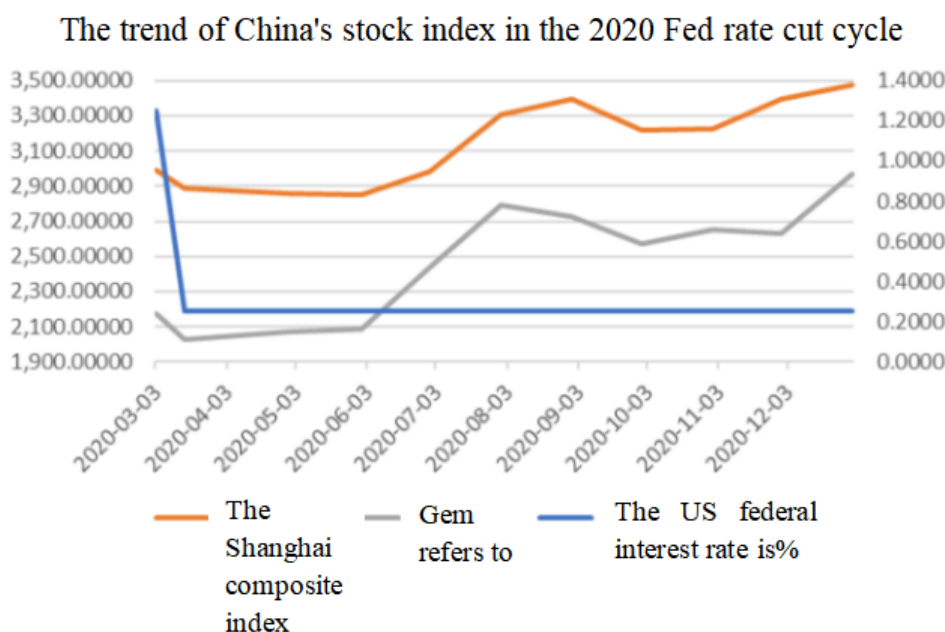


Fig 4. Trend of China's stock index in the 2020 Federal Reserve rate cut cycle.

4. Qualitative Analysis

In the previous section we were able to visually identify in the figures the relevant responses and trend correlations of our capital markets under the Fed's easing/tightening monetary policy. In this section we will use qualitative analysis to analyze the various spillover channels and transmission modes of the Fed's monetary policy and determine how they act on the stock prices in our capital markets.

4.1. Interest Rate Channel

The Fed's monetary policy primarily influences the Chinese capital market through the interest rate channel in two ways: first, by modifying the level of interest rates to influence the level of real interest rates in other nations, putting restrictions on their monetary policy; and second, by influencing the level of interest rates directly; Second, changes in interest rate levels have an impact on the financial markets' liquidity, which has an impact on financial markets in other nations and creates a pull or suppresses national markets due to the impact of asset allocation.

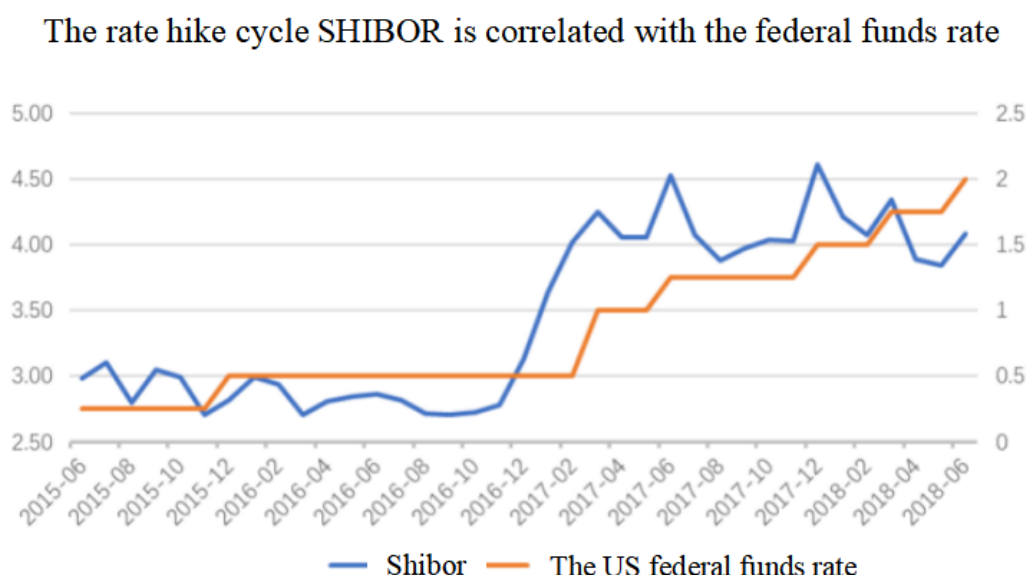


Fig 5. The rate hike cycle SHIBOR is correlated with the federal funds rate.

Figure 5 shows that during the Fed's interest rate hike, SHIBOR as a whole displayed a startling increasing trend. On the one hand, the Fed rate increase will reduce capital market liquidity and, to a certain extent, increase global market funding tension, which will also be seen in China's tight funding and rising overnight borrowing rates. On the other side, the U.S. federal funds rate is increasing throughout the Fed's interest rate hike, With the Fed's interest rate hike, the U.S. dollar is becoming more appealing, the difference in interest rates between China and the U.S. is narrowing, and foreign capital is moving from China to the U.S. The spread between China and the U.S. must be kept at a specific level in order to prevent an excessive outflow of foreign capital, so the rise in the U.S. federal funds rate must also be accompanied by an increase in the SHIBOR rate. Eventually, a pattern of homogenous shift may be seen in both the Chinese 7-day Shanghai Interbank Offered Rate (SHIBOR) and the U.S. federal funds rate. It can infer from the data graph and logical reasoning that a Fed rate hike will cause our market interest rates to increase.

However, it will also have a significant impact on the investment and financing decisions of listed firms, such as the market's lack of liquidity, which will directly affect the cost of capital for stock market investors. The correspondingly higher interest rates will directly result in fewer investors seeking financing and fewer financing options, which will then reduce the amount of money coming into the stock market and cause stock prices to fluctuate or even drop in an adjusting manner. By constructing the Fed's interest rate cut cycle and the trajectory of the Chinese CSI 300 index, we can

see that the Chinese stock market exhibits a startling negative tendency when the Fed's interest rate raise (see Figure 6). It is possible to say that the Fed's increase in interest rates has had some adverse effects on the value of the Chinese stock market.

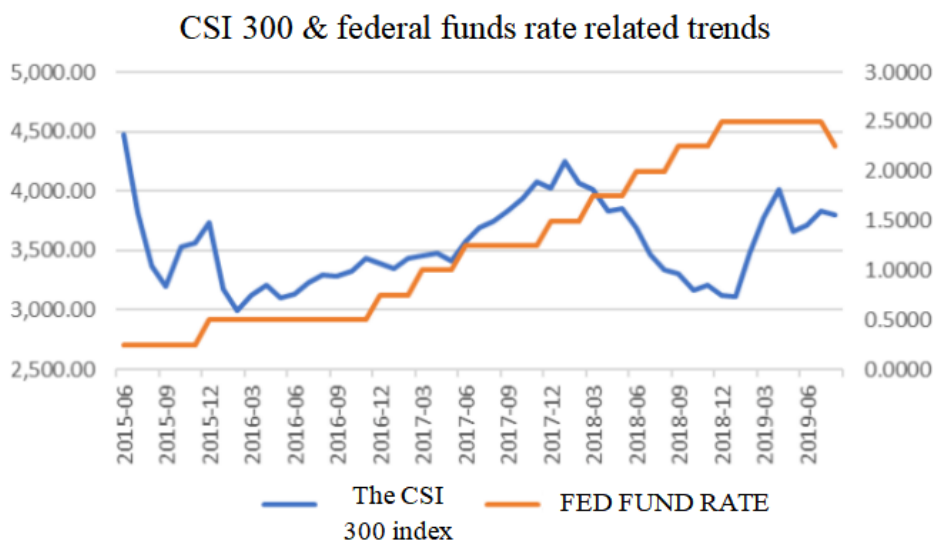


Fig 6. CSI 300 & federal funds rate related trends.

The Chinese stock market began this set of Fed rate hikes at the same time as the 2015 stock market meltdown, with the CSI300 Index dropping below 3000. Although a significant portion of it was caused by the collapse of the domestic stock market price bubble, the influence of the Fed's interest rate hike cannot be disregarded. In two months, the CSI300 index dropped by 23%, going from 3,731.01 points to 2,877.47 points. Even though the CSI300 index of the Chinese stock market declined after the federal funds rate increased at various points in time between 2016 and 2017, the domestic stock market displayed an oscillating upward trend due to the ongoing promotion of supply-side reform, which was supported by prudent monetary and fiscal policies. After the year 2018, The Federal Reserve increased interest rates four times last year, making it the most active year in the cycle of rate increases. The monthly U.S. federal funds rate indicator also increased all year long. The CSI 300 index also decreased as a result of the significant stimulation of interest rate increases, dropping from 4275.9 points in January 2018 to 3010.65 points in December 2018. As a result, it may be said to be negatively affecting the prices of our stock market. The following stages in Figure 7 summarize the reasoning behind the Federal Reserve's monetary policy's use of the interest rate channel to influence the value of our stock market.

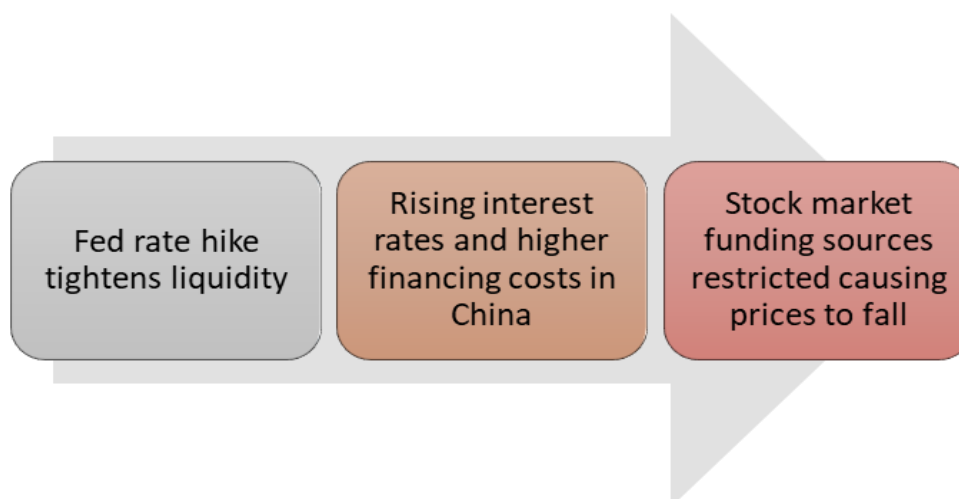


Fig 7. The Fed influences it through interest rate channels.

4.2. Non-Financial Channels

It is clear from the relationship between the U.S. federal funds rate and the U.S. dollar to RMB exchange rate that the latter had a general upward fluctuating tendency during the Fed's rate hike.

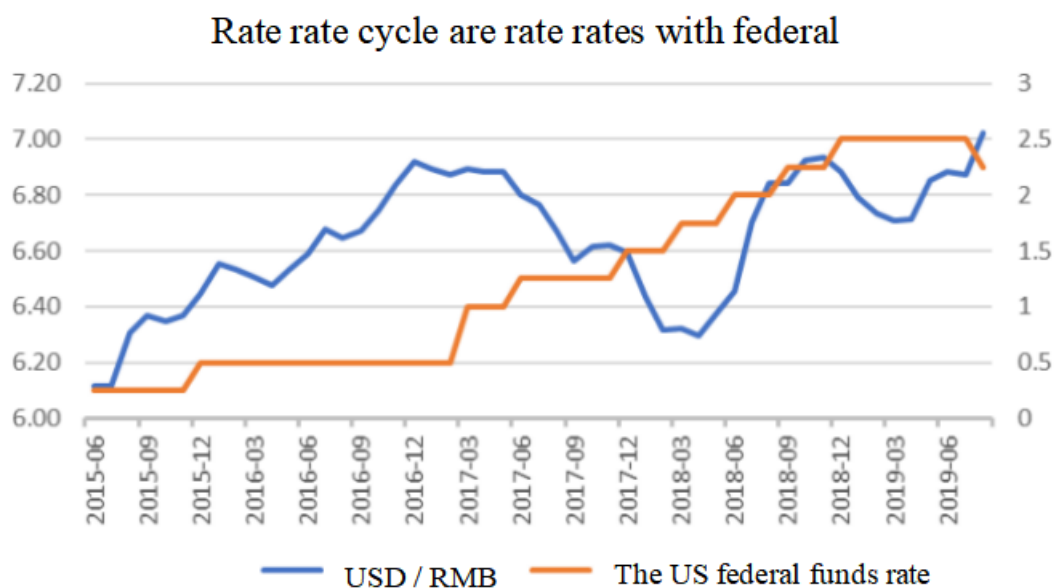


Fig 8. Rate cycle are rate rates with federal.

When the Federal Reserve executes an interest rate hike cycle, with the increase in the federal funds rate, various related interest rates in the U.S., such as deposit and loan rates, will also be raised accordingly, and the interest rate on deposits of U.S. depositors will increase, International hot money will swarm to the United States as foreign investors become more eager to keep U.S. currency. The RMB declines in value relative to the US dollar as the US dollar gains strength on the foreign currency market, increasing the US dollar's purchasing power. The stronger RMB/USD exchange rate would boost China's export trade sector. Because of the spike in demand, relevant export-oriented listed businesses may at this moment usher in an upward trend and propel the growth of connected sectors. On the other hand, compared to the stimulation of interest rate hike export-oriented companies, capital outflow has a more profound impact on our economy. With the gradual devaluation of the RMB, domestic demand for commodities will become lower, while asset prices will also fall simultaneously (see Figure 8). Under the joint catalyst of these forces, the final change in the trend of Chinese stock market will be a shock decline.

The U.S. dollar to RMB exchange rate was rising from the start of the Fed's cycle of starting a new round of interest rate hikes, and this depreciation trend of the RMB lasted until the end of 2016, rising from 6.2 in July 2015 to 6.92 in December 2016, hitting an important turning point. We can infer from this that the Fed uses the federal funds rate as a route to affect our stock market by controlling it in order to affect the exchange rate, which in turn affects import/export and asset values. Among the domestic studies in similar domains, Sun and Zhang design a TVP-VAR model and explain it through two channels: the exchange rate and the interest rate, to study the time-varying characteristics and structural changes of the impact of the Fed's interest rate hike on Chinese output. According to the findings, the positive stimuli in 1999 and 2004 benefited from the reverse regulation to stimulate credit and RMB depreciation to encourage exports, respectively. To some extent, the exchange rate channel's transmission mechanism is also supported. The following steps in Figure 9 summarize the reasoning behind the Federal Reserve's monetary policy's use of the exchange rate channel to affect our stock market's pricing.

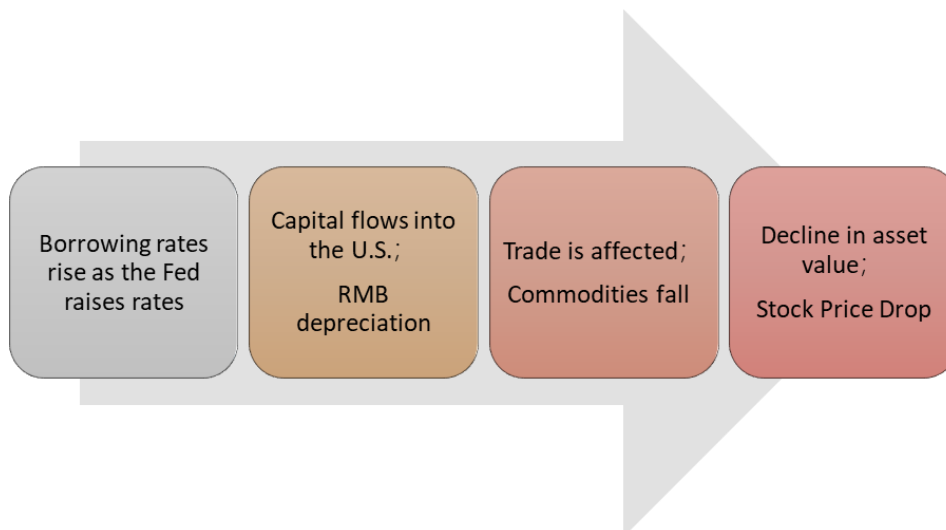


Fig 9. The Fed influences it through exchange rate channels.

In light of the Federal Reserve's loose monetary policy and substantial balance sheet expansion, Chinese central bank, in order to achieve internal and external balance to prevent capital outflows, will also adjust its monetary policy accordingly to increase leverage to stimulate the domestic economy to rebound. These measures effectively reduce the cost of corporate financing, allowing producers to obtain low-cost means of production through more channels and thus promote production, which in turn expands the supply and demand of the entire market, achieving the result of market stimulation. This approach can be understood as causing credit expansion in China through credit transmission, effectively reducing the cost of external financing premiums for firms, improving financing constraints and promoting corporate investment spending, improving corporate cash flows and financial positions, and finally causing corporate stock prices to rise.

Conversely, when foreign monetary authorities open a cycle of interest rate hikes, our central bank needs to shrink credit to achieve internal and external equilibrium, the difficulty and cost of financing for companies are increased to a certain extent, and real debt increases, leading companies to cut investment and reduce cash flow, the net value of the company decreases, and stock prices fall. The following steps in Figure 10 summarize the reasoning behind the Federal Reserve's monetary policy's use of the exchange rate channel to affect our stock market's pricing.

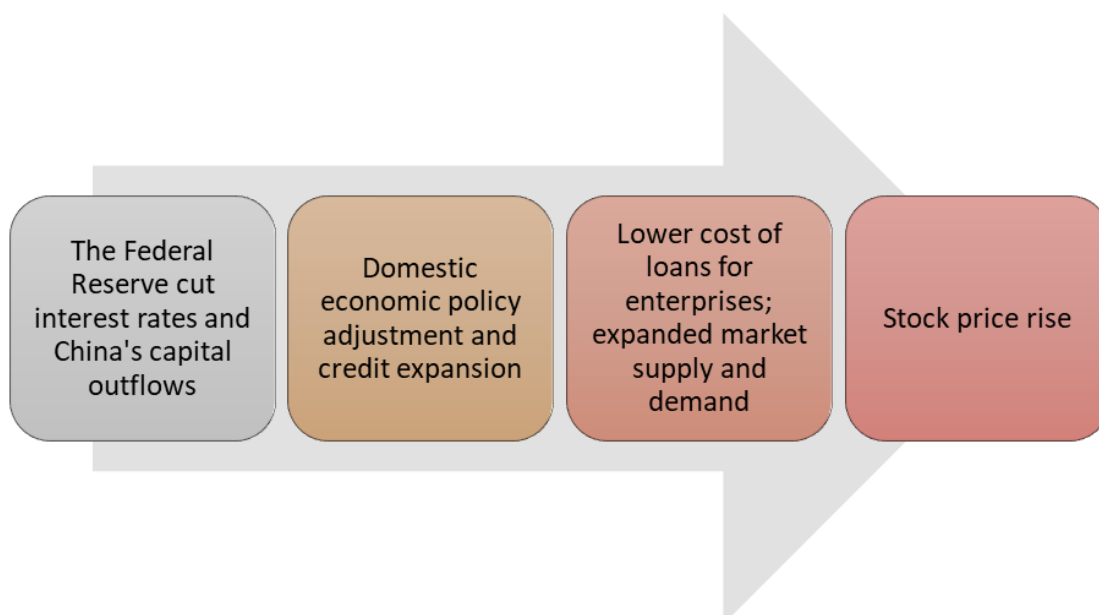


Fig 10. Impact of the Fed through exchange rate channels.

Investors with common sense would anticipate that changes in U.S. monetary policy would eventually have a variety of effects on the Chinese stock market, resulting in price volatility. Changes in the exchange rate of the local currency will directly impact commodities, assets denominated in the local currency, and the import and export operations of listed firms, for instance, if the US dollar index strengthens after the Fed raises interest rates. Finally, it will directly affect the balance accounts of public corporations and cause stock price volatility. Additionally, short-term capital movements will cause a significant outflow of money from the stock market and a reduction in the amount of money available there, which will cause stock values to fall. Due to the United States' strong economic position, the majority of other nations will also change their monetary policies and passively follow the interest rate hike in order to maintain exchange rate stability and prevent an excessive outflow of short-term capital. The country's rising interest rates will increase the cost of capital, lowering investors' investment income and resulting in a decline in investment activity. Profits and corporate value will also decline as a result of rising investment and financing expenses for public companies. In the meantime, when interest rates rise, banks and financial institutions will be less inclined to lend, and less money will be moving through the market, which will result in less money available for the stock market and lower stock prices. Furthermore, the aforementioned investor expectations will undermine investor confidence in their ability to spend and consume, which will impact their behavior and ultimately have an impact on domestic actual economic activity and stock market price swings.

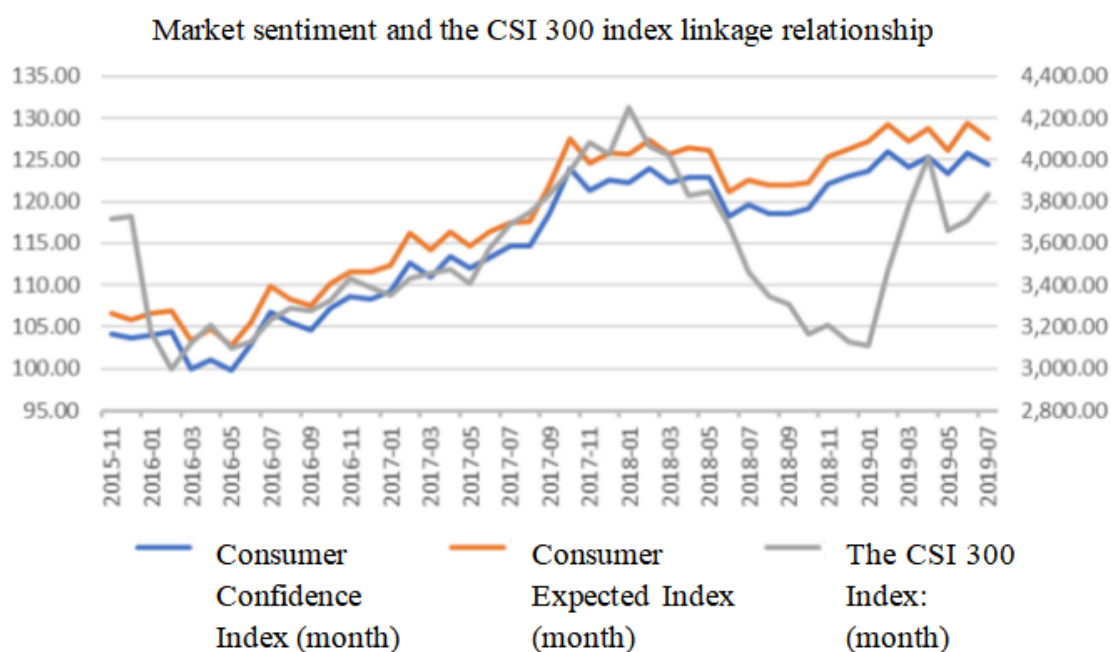


Fig 11. Market sentiment and the CSI 300 index linkage relationship.

The realistic basis and importance of the psychological expectations transmission channel can be seen from the simultaneous changes of the Consumer Confidence Index and the CSI 300 (see Figure 11). As an indicator of the strength of consumer confidence, the Consumer Confidence Index contains people's psychological expectations about the development of changes in the stock market over the next six months, historical data show the consistency of their movements. After the Federal Reserve raised interest rates for the first time by 25 basis points in December 2015, the CSI 300 index experienced a precipitous drop, which will have an important impact on consumers' expectations about the future development of the economy and the stock market, thus affecting their investment and consumption behavior. As a result, it will affect the development status of the economy and the volatility of stock market prices.

5. Conclusion

A topic of extreme importance and significance is the effect of the Federal Reserve's monetary policy on equities asset prices in China. This essay offers a thorough examination of this effect, based on the opinions of academics from China and elsewhere. The analysis in this paper demonstrates that there is, in fact, a spillover effect of the Federal Reserve's monetary policy change on Chinese stock market prices. Stock prices generally decline in Chinese capital markets when the Federal Reserve adopts a tight monetary policy, such as a rate hike cycle. On the other hand, the Chinese capital markets generally benefit when the Federal Reserve adopts accommodative monetary policies, such as interest rate reductions or quantitative easing. The research finds two primary channels—the non-financial channel and the financial channel—through which the monetary policy of the Federal Reserve affects Chinese stock prices. Particularly, changes in interest rates at the Federal Reserve have an impact on market liquidity, which has an impact on investors' cost of capital on Chinese capital markets and finally has an impact on changes in Chinese stock prices. The Fed's adjustment of interest rates also affects the RMB exchange rate and Chinese foreign trade, which in turn affect Chinese stock prices. In the non-financial channels, the Fed's accommodative monetary policy causes a global credit expansion, which reduces financing costs and thus pushes up stock market prices. The market sentiment channel also affects stock prices by influencing investor expectations and consumer investment behavior.

The study foresees that anticipation of a Fed interest rate hike will have an impact on the liquidity of Chinese capital markets in the first half of 2021, and stock market values could drop unexpectedly. Investors and related departments should be aware of the impact on the Chinese capital market brought by the expected landing of interest rate hikes and study macro trends to avoid risks effectively. However, the crisis also presents opportunities, as the global industry is expected to see a full recovery. As the epidemic is controlled, and vaccination efforts in various countries are effectively advanced, demand and productivity continue to recover. Global market demand for commodities will also continue to rise, with the commodities index having increased by nearly 10% cumulatively from the beginning of 2021 to the deadline for this article. Especially considering the inflationary expectations due to the Fed's sluice, basic industrial raw materials in commodities will keep growing for a period. Overall, this paper offers insightful information about how the Federal Reserve's monetary policy affects the prices of equity assets in China, highlighting the pathways by which this impact is communicated and offering advice for investors and decision-makers in navigating the challenging environment of global finance.

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