

In Their Own Words: The Credit and Demand Channels of Monetary Policy Transmission to Firms

Discussion

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The Paper

- **Two text indexes** from earnings calls [2008–2023]: credit sentiment and negative demand

1. Monetary Policy → Stock Prices

- Firms **more constrained** / weak-demand: **larger equity drops** after MP tightening surprises.
- Credit index **beats standard proxies** [KZ, Whited–Wu, ratings, floating-rate] — splits into *cost of credit* vs. *access to credit*.

2. Investment

- Both indexes **predict lower investment** (not interacted with MP)

Key Regression Estimates

(1) Equity response to MP surprises

$$R_{i,t} = \alpha_i + \beta \text{MPS}_t + \gamma (\text{MPS}_t \times \text{CreditSent}_{i,t}) + \varepsilon_{i,t}$$

A firm **one SD more constrained** has about a **third larger equity drop** after a tightening surprise [$\hat{\gamma} = -6.68^{***}$].

(2) Investment on the index

$$\Delta \ln k_{i,t} = \alpha_i + \beta_{cs} \text{CreditSent}_{i,t} + \varepsilon_{i,t}$$

Firms that **sound more constrained invest less** next period

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- The paper reads as:
 1. We construct an index
 2. A lot of effort to validate the index
 3. Interacted with MP surprises, it beats other variables at explaining stock-price reactions
- I suggest:
 1. What is the relevant literature
 2. Anchor the paper to theory better
 3. What can we answer with the index that we could not answer before

Literature I: Constraints & MP → Stock Prices

$$R_{i,t} = \alpha_i + \beta \text{MPS}_t + \gamma (\text{MPS}_t \times \text{Credit Risk} / \text{Constraint}_{i,t}) + \varepsilon_{i,t}$$

Chava & Hsu (2020) — constrained react **more**, but only after a **3–4 day delay**

On the FOMC day they react *less*; — driven by **cash-flow news**, not discount rates

Palazzo & Yamarthy (2020) — riskier firms react **more**, in **CDS and equity**

credit risk beats leverage & size

Ozdagli (2018) — constrained react **less** — hold less debt, so less amplification

Position the Paper in Literature I

■ What do we learn?

1. A more definitive answer on the **sign** [can you check the days *after* the announcement, as in Chava–Hsu?]
2. Can you say more about **what is driving** the effect?

The index now **mixes constrained firms and risky firms**. Example:

Example of constrained firm: *“Company is in default on a significant portion of loans and considering bankruptcy...”*

⇒ **Construct sub-indices**

Build the Sub-Indices

Split the credit narrative into distinct frictions:

Sub-index	Narrative cues
Cost of credit	interest expense, rate, spread
Access (quantity)	credit line, availability, covenant
Rollover / maturity	refinance, maturing, near-term
Distress / default	default, bankruptcy, workout
Liquidity	cash, working capital

Paper already has cost vs. access — extend to rollover / distress / liquidity (validate each separately).

Literature II: Constraints & MP $\rightarrow$ Investment

$$\Delta_h \ln k_{i,t+h} = \alpha_i + \gamma_h (\text{MPS}_t \times \text{Credit Risk} / \text{Constraint}_{i,t}) + \varepsilon_{i,t+h}$$

Ottonello & Winberry (2020) — **low** default-risk / low leverage react *most*

Low risk $\Rightarrow$ more sensitive to rates; MP weaker when aggregate default risk is high

Jeenas (2026) — **liquidity (cash)** drives the response — subsumes leverage & distance-to-default

Long-term debt issued *infrequently* $\Rightarrow$ cash-rich firms **insulated** from policy-driven borrowing costs; low-cash firms exposed

Jeenas & Lagos (2024, JPE) — **q-theory**: MP $\rightarrow$ stock prices $\rightarrow$ investment

(the paper does not run this regression)

Contribute to Literature II

- Run the regression [the heterogeneous investment response]:

$$\Delta_h \ln k_{i,t+h} = +\beta_h(\text{MPS}_t \times \underbrace{Z_{i,t}}_{\text{DtD, liquidity, leverage}}) + \varepsilon_{i,t+h}$$

- Can you provide more info on **what types of constraints matter** using sub-indexes?
- The current predictive regression does not belong to this paper

What Are the Effects of Monetary Policy on the Indexes?

- Run this regression to shed light on **how MP affects firms**:

$$\text{Sub-Index}_{i,t+1}^k = a + b_k \text{MPS}_t + \varepsilon_{i,t+1}, \quad k \in \{\text{cost, access, default, demand}\}$$

- Relaxing of **constraints**?
- Reduction in **debt cost**?
- Lower **default probability**?

⇒ Lets us say more about *pass-through*

Theory: Decompose the Stock-Price Response [Ottonello–Winberry]

Stock price = equity value v_t , with $\partial v_t / \partial n = 1 + \lambda_t$ [shadow cost of finance]

$$\frac{d \log v_t}{d \text{MPS}} \approx \underbrace{(1 + \lambda_t) \partial \log n}_{\text{cash-flow / net worth}} - \underbrace{\partial \log R}_{\text{discount rate}} + \underbrace{\partial \text{spreads}}_{\text{default / credit}}$$

and net worth itself splits into [OW eq. 11]:

$$\partial \log n = \underbrace{\partial p}_{\text{demand}} + \underbrace{\partial q}_{\text{capital}} + \underbrace{\partial(b/\Pi)}_{\text{debt, } \propto \text{leverage}}$$

⇒ **Which sub-index loads tells you which channel**

Organizing decomposition from OW (value fn. eq. 5, envelope, net-worth eq. 11).

Conclusion

Nice paper — a novel, real-time text measure of firm credit & demand conditions.

My suggestions

1. Position w.r.t. the literature
2. Study investment & the index itself