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The Relationship Between Value and Growth Stock Returns, Monetary Policy and Economic Activity: Evidence From New Zealand, Australia and the US

A thesis presented in partial fulfilment of the requirements for the degree of Masters of Business Studies in Finance at Massey University

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This thesis examines the relationship between monetary policy, economic activity and value and growth stock returns in New Zealand, Australia and the US for the period 1990 to 1997. There is evidence to suggest that in the short-term, there are periods where value stocks outperform growth stocks and vice versa. This study investigates the role a number of economic variables play in driving the relative performances of these two groups of stocks. The primary focus of this study is on the relationship between value and growth stock returns and monetary policy, however, the following economic variables are also included in the analysis: Short-term interest rates, the exchange rate, GDP, inflation, money supply, and a business confidence index. Vector autoregressions form the methodological basis for this research and provide impulse response functions and forecast error variance decompositions that are used to determine relationships between the variables. The major finding of this study is that value stocks in Australia and the US perform relatively better than growth stocks during periods of loosening monetary policy. On the other hand, value stocks in New Zealand perform relatively better than growth stocks during periods of tightening monetary policy.
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