The Pre-FOMC Announcement Drift: Empirical Evidence from a Frontier Market

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ABSTRACT

This paper examines the impact of Federal Open Market Committee (FOMC) announcements on stock prices in the Vietnamese securities market, using data from January 4, 2010, to December 30, 2022. FOMC decisions regarding the federal funds rate are closely watched by global investors due to their significant influence on financial markets. Within the investigated timeframe, this paper finds evidence of FOMC announcement drift when FOMC decides to decrease the interest rate. In such cases, investors in Vietnamese securities market seem to react positively, resulting in significantly higher stock returns around the announcement. However, there is no such evidence to support the pre-FOMC announcement drift when FOMC decides to increase or unchanged the Feds Fund Rate. These patterns suggest that Vietnamese investors are sensitive to U.S. monetary policy, yet the degree of market reaction varies depending on the direction of policy changes. When extending the research for 5 days before and after the event, this paper finds that Vietnamese investors avoid being exposed in this event by selling enormously before the date. This paper contributes to the literature by highlighting the varying reactions of a frontier market to the U.S. monetary policy decisions.

Keywords: FOMC announcement, Central bank communication, Frontier market

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Introduction

The Federal Open Market Committee (FOMC), the main monetary policy-making body of the Federal Reserve System, plays a critical role in shaping global financial markets. Its eight annual meeting in which the decision on the federal funds rate is made, are closely watched by investors worldwide, since this decision signals the future trajectory of the U.S. monetary policy. The signature paper of [11] records enormous abnormal returns right before the FOMC announcement. They term this anomaly as the pre-FOMC announcement drift. Similarly, other researchers have attempted to find evidence regarding pre-announcement drift in developed and developing countries [4, 11, 13, 15, 20], yet there remains a gap in literature when it comes to frontier market. This paper aims to bridge this gap by exploring the pre-FOMC announcement drift in the context of Vietnam's equity market.

Since the establishment in 2000, Vietnamese securities market have experienced strong development over the years. According to the State Securities Commission (SSC), the market capitalization of Vietnam stock market reached VND 5.6 quadrillion (approximately US$ 242.7 billion), equivalent to 90.3% of GDP at the end of February 2021. Though credit remains the main source of funding for Vietnamese economy (outstanding loans were equivalent to 146% of GOD at the end of 2020), securities market gradually draws more attention and become an important channel of capital mobilization. In 2022, domestic individual investors opened 2.6 billion new trading accounts which surpass the number of new accounts opened for 6 years in total (from 2016 to 2021). Foreign investors remain the net buyer in Vietnamese market for long time. In 2019, they poured US$ 36.4 billion into the securities market according to SSC. The attractiveness of Vietnamese securities market to foreign capital can make it more responsive to information from international market, especially from the U.S. The sensitivity of Vietnam's market to global events, particularly those originating from the U.S., has prompted this study into the potential spillover effects of FOMC announcements on Vietnamese stock returns.

Using the data of Vietnamese equities index (VN Index) from 4 Jan 2010 to 31 December 2022, I examine the impact of FOMC announcement event to Vietnamese securities market. The findings are as follows: (1) The returns around FOMC announcements are larger compared to other trading days, yet the excess return on the event date is not statistically different than other trading days; (2) For the events in which FOMC announces that it will increase the Feds fund rate, Vietnamese investors are careful about this information and attempt to get out of the position before the event. Even after the event, Vietnamese investors are still pessimistic about the situation. It leads to the return one day before and two days after are significantly smaller than other days; (3) When FOMC decreases the interest rate, Vietnamese investors take this information as positive signal. Therefore, the excess return around this type of event is significantly larger compared to other days; (4) For the meetings when FOMC keep the target rate unchanged, Vietnamese investors also try to avoid the risk and sell the securities before the event. These patterns suggest that Vietnamese investors are responsive to U.S. monetary policy, yet the degree of market reaction varies depending on the direction of policy changes. (5) The research shows the risk-averse behavior prior to the scheduled announcements, demonstrating by the selling pressure leading up to the announcement date. It suggests that Vietnamese investors avoid exposure during this period, prompting them to exit their positions.

This study contributes to existing literature in three ways. First, it provides empirical evidence of how the asset prices in a frontier market are influenced by the U.S. monetary policy. This study expands the research on the "pre-FOMC announcement drift" observed in developed and developing markets by demonstrating that such market reactions also occur in a frontier market like Vietnam. Second, the study highlights the diverse responds of Vietnamese investors to different types of FOMC decisions. This study finds that Vietnamese market reacts differently based on whether the FOMC decides to raise, lowers, or unchanged the interest rate. This study also finds evidence of risk-averse behavior when the rate hikes or unchanged rates are announced. This contributes to the literature on investor sentiment and behavior, particularly in frontier markets, where investors are more sensitive to external shocks due to the market's relative immaturity and dependence on foreign capital. Third, by providing evidence on the reactions of Vietnamese securities market on the Fed funds rate decision, this study sheds light on the transmission mechanism through which the U.S. monetary policy impacts frontier markets. These findings can inform Vietnamese policy makers and other frontier markets about the potential spillover effects of developed countries monetary policies, thereby aiding better risk management and regulatory strategies to alleviate volatility associated with external economic shocks.

The remains are structured as follows. Section 2 reviews the literature about the impact of FOMC announcement on different asset prices. Section 3 describes the data source and methodology. Section 4 reports the findings. Section 5 presents the conclusions and discussion of my findings.

Literature review

The pre-FOMC announcement drift challenges the Efficient Market Hypothesis (EMH), which states that financial markets are informationally efficient. According to EMH, all relevant information should be reflected in asset prices, meaning that it is impossible to achieve abnormal returns based on public announcement or predictable events. EMH is divided into three forms based on the type of information reflected in asset prices. (1) Weak-form efficiency: all historical information (historical prices, volume, etc.) is fully reflected in current prices. According to this form, the application of technical analysis cannot bring abnormal returns to investors. (2) Semi-strong form efficiency: all publicly available information (financial statements, news, economic data, etc.) is incorporated in current prices. In this case, fundamental analysis, which relates to the analysis of the company's financial health and prospects with the use of publicly available information, cannot lead to abnormal returns. (3) Strong-form efficiency: all information, both public and private, is reflected in asset prices. In a strong form efficient market, even the insiders cannot beat the market. The existence of pre-FOMC announcement drifts suggests that the market does not achieve the semi-strong form efficiency.

The pre-FOMC announcement drift, as observed in many studies [4,11, 13, 15, 20], indicates that there is a predictable price pattern before FOMC announcement dates, particularly relating to the Fed funds rate decision. Specifically, stock prices tend to drift in the days leading up the announcement, with abnormal positive returns occurring due to market expectations. [11] record that since 1994 the average excess returns on U.S. stocks have been 30 times larger on the announcement days than other days. They also emphasize that this abnormal return accrued before the FOMC announcement. This paper documents the same pattern in other countries' equities index like Germany, U.K., France, Spain, Swiss and Canada. [15] find 28.1 bps excess return of the Korean market prior to FOMC announcement day. This phenomenon is also found in different assets classes like E-mini-S&P 500 futures [1]; Eurocurrency interest rates and the foreign currency markets [8]; US nominal interest rate, US real interest rate, currencies, precious metals and commodities [4]. Yet there is limited evidence about this phenomenon in emerging and frontier markets.

The empirical evidence on the Efficient Market Hypothesis in Vietnam is mixed. Some studies explore the weak form of market efficiency in Vietnamese securities market by investigating market anomalies or testing the technical trading rules. [6] confirm the weak-form efficiency, while [17] shows that Ho Chi Minh Stock Exchange (HOSE) is efficient while Hanoi Stock Exchange (HNX) is inefficient. On the other hand, [18] reject the weak form in Vietnamese market. [12] confirms the predictive power of technical trading rules in Vietnamese and [14] find the evidence for day of the week effect. Other studies investigate the semi-strong form efficiency in Vietnam through event study. [3] confirm the abnormal returns around the dividend announcement and ex-dividend date. [19] find the same results for cash dividend announcement. Among the events that have been studied in the literature, the study on FOMC announcement date is scarce in Vietnam.

According to the EMH, if markets were truly efficient, investors should not be able to systematically profit from such pre-announcement price movements because all publicly available information, including the date and nature of the FOMC meeting, should already be incorporated into asset prices. However, the existence of a pre-FOMC announcement drift implies that there are inefficiencies in the market, where prices do not fully adjust to available information until after the announcement, thus presenting a counterargument to the EMH. I extend the research on pre-FOMC drift by categorizing the FOMC announcements based on the types of rate decision: upward interest rate decision, downward interest rate decision and unchanged interest rate decision.

Based on the unsettled results about the efficiency of Vietnamese securities market, I derive the following hypotheses:

H1: The pre-FOMC announcement drift exists in Vietnamese market when FOMC decides to decrease the interest rate.

H2: The pre-FOMC announcement drift exists in Vietnamese market when FOMC decides to increase the interest rate.

H3: The pre-FOMC announcement drift exists in Vietnamese market when FOMC decides to keep the interest rate unchanged.

Data and Methodology

The time frame investigated is from 4 January 2010 to 30 December 2022. The data set consists of the trading volume of all stock listed on Ho Chi Minh Stock exchange, Vietnam Interbank Offered rate, the price and trading volume of VN Index. The data are summarized in the following table:

Table 1 Summary of data

Variable	Proxy	Source
Net order flow	Net order flow (calculated by trading volumes of stocks listed on HSX)	https://hsx.vn
Market return	VN Index return	https://hsx.vn
Risk free rate	The Interbank Offered rate	https://sbv.com.vn
FOMC announcement dates	Dummy variable	https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

I follow previous research of [2] and [15] to calculate the daily order imbalance of every stock listed on HSX on day t, which is defined as:

$$OI_{i,t} = \frac{BO_{i,t} - SO_{i,t}}{BO_{i,t} + SO_{i,t}}$$

Where $BO_{i,t}$ and $SO_{i,t}$ are the number of shares of stock i bought and sold on day t. I first calculate this measure for each stock, then aggregate to get the market-level order imbalance using the equally weighted average method. Second, I calculate the VN Index return in excess of risk-free rate. The Interbank Offered rate provided by State Bank of Vietnam represents the risk-free rate. Data of the Interbank Offered rate is scraped from SBV's website by Selenium. Third, I construct a list of FOMC announcement dates within the investigated time frame. Due to 12 hours' time difference between the U.S. and Vietnam, the event date in Vietnam will be the next day.

I analyze the average excess return within the window of 11 days which consist of the event date and 5 days before and after the event. In addition, I analyze the net order flow to examine how Vietnamese investors have been trading within that window. I also calculate the t-statistics of the average excess return and net order flow.

The analysis presented thus far is descriptive statistics. To quantify the abnormal return, I proceed by estimating the following regression:

$$R_t = \beta_0 + \beta_1 D(pre - FOMC\ announcement) + \epsilon_t$$

Where R_t is the excess return on day t, $D(pre - FOMC\ announcement)$ is the dummy variable. The main specification consists of one constant and one dummy variable which equals 1 on one day before the event date. The coefficient of dummy variable represents the difference between excess returns on that day compared to other days. The constant represents the excess returns on other days. The sum of β_0 and β_1 is the excess return on the one-day-lag of FOMC announcement. I also extend the impact of FOMC announcement on Vietnamese equity index on the exact announcement date and the 5 days before and after the event. The dummy variable is changed based on the day I would like to investigate further. For example, when investigating the impact two days before the FOMC announcement on excess return, I would set the dummy to 1 on the day which is two days earlier than the event.

Results

During the time frame investigated, there are 116 FOMC announcements, which include 104 scheduled meetings and 12 unscheduled meetings. Among those 116 event dates, 16 of them are the dates on which FOMC decided to increase the target rate, 5 times FOMC voted to decrease the federal funds rate, and 95 times that the target rate stayed the same.

Table 2 Summary statistics of FOMC announcement dates

Year	Up	Down	Unchanged	Unscheduled
2010	0	0	10	2
2011	0	0	10	2
2012	0	0	8	0
2013	0	0	9	1
2014	0	0	9	1
2015	1	0	7	0
2016	1	0	7	0
2017	3	0	5	0
2018	4	0	4	0
2019	0	3	6	1
2020	0	2	11	5
2021	0	0	8	0
2022	7	0	1	0
Sum	16	5	95	12

Table 3 Excess return of VN Index around FOMC announcements (unscheduled and scheduled meetings)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
-5	0.001	1.177	116	-0.009	-1.424
-4	0.001	1.133	116	-0.007	-1.043
-3	-0.003*	-1.924	116	-0.020**	-2.459
-2	0.000	0.285	116	-0.008	-1.013
-1	-0.002*	-1.916	116	-0.009	-1.158
0	-0.001	-1.221	116	-0.018**	-2.301
1	0.000	0.254	116	-0.005	-0.737
2	-0.001	-0.668	116	-0.004	-0.544
3	-0.001	-0.515	116	-0.015**	-2.289
4	0.001	0.932	116	-0.005	-0.801

* denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level, respectively.

From the univariate analysis 116 unscheduled and scheduled event dates, it can be seen that the excess return at day 3 and day 1 before the announcement is significantly negative. On the day of the announcement, the excess return is positive yet insignificant. The net order flow of all stocks listed on HSX is negative during 11 days of investigation, indicating that the selling pressure is more powerful than buying pressure in Vietnam during the FOMC announcement. The selling pressure is more significant on 3 days before the announcement, on the event date and 3 days after.

Table 4 Excess return of VN Index around FOMC announcements (Scheduled meetings)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
-5	0.002**	2.024	104	-0.009	-1.308
-4	0.001	1.080	104	-0.009	-1.358
-3	-0.002	-1.308	104	-0.020**	-2.229
-2	0.001	1.123	104	-0.009	-1.154
-1	-0.001	-1.230	104	-0.006	-0.822
0	-0.001	-1.006	104	-0.019**	-2.325
1	0.000	0.268	104	-0.002	-0.300
2	-0.001	-0.714	104	-0.004	-0.442
3	-0.001	-0.771	104	-0.013**	-2.006
4	0.001	1.100	104	-0.007	-1.115
5	-0.001	-1.029	104	-0.015	-2.012

* denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level, respectively.

For the scheduled announcement date, the excess return is significantly positive 5 days before the announcement. The selling pattern remains during the scheduled announcement, significant selling days are 3 days before, 3 days after, 5 days after and on the event date.

Table 5 Excess return of VN Index around FOMC announcements (Unscheduled meetings)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
-5	-0.005	-0.717	12	-0.012	-0.552
-4	0.001	0.334	12	0.013	0.472
-3	-0.009*	-1.820	12	-0.022	-1.228
-2	-0.007	-1.497	12	0.002	0.063
-1	-0.010	-1.745	12	-0.034	-0.923
0	-0.003	-0.849	12	-0.011	-0.362
1	0.001	0.064	12	-0.033	-0.813
2	0.000	-0.035	12	-0.011	-0.346
3	0.002	0.234	12	-0.029	-1.113
4	0.000	-0.044	12	0.009	0.234
5	-0.004	-0.887	12	-0.024	-1.239

* denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level, respectively.

During 12 unscheduled announcements, only when it is 3 days before the event date, the excess return is significantly negative.

Table 6 Excess return of VN Index around FOMC announcements (Upward interest rate decision)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
-5	0.005	1.618	16	-0.025	-1.259
-4	-0.001	-0.711	16	-0.035	-1.717
-3	-0.009**	-2.571	16	-0.051**	-2.589
-2	0.003	1.391	16	-0.005	-0.229
-1	0.000	-0.027	16	-0.009	-0.812
0	0.003	1.315	16	-0.003	-0.259
1	-0.005	-1.568	16	-0.004	-0.340
2	-0.009*	-1.832	16	-0.049**	-2.675
3	-0.001	-0.352	16	-0.007	-0.821
4	0.001	0.542	16	-0.023*	-2.083
5	-0.006	-1.403	16	-0.035	-1.798

* denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level, respectively.

There are 16 dates in which FOMC announces that it will increase the fed funds rate. During these events, the univariate analysis shows that excess returns are significantly negative on the three-day-lag and the two-day-lead, these negative returns are confirmed by controlling selling pressure on those dates. It seems that the investors are trying to get out of their positions before FOMC meetings. Especially, the ones who decide to sell right on the announcement can realize some profit (0.3%), yet the t-statistics of excess return on the announcement is insignificant.

Table 7 Excess return of VN Index around FOMC announcements (Downward interest rate decision)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
-5	-0.006	-0.746	5	-0.012	-0.340
-4	0.007	1.844	5	0.022	0.714
-3	0.000	-0.018	5	-0.021	-0.552
-2	-0.002	-0.589	5	-0.011	-0.488
-1	0.004*	2.311	5	0.018	1.088
0	0.001	0.628	5	0.012	0.247
1	0.002	0.390	5	-0.001	-0.110
2	-0.005	-1.002	5	0.001	0.037
3	-0.017	-1.213	5	-0.049	-0.845
4	0.001	1.323	5	0.044*	2.197
5	-0.005	-0.600	5	0.013	1.039

* denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level, respectively.

When FOMC announces a decrease in the interest rate, it can be considered as positive signal to the securities market. During 5 times that FOMC declare the downward interest rate decision, investors in Vietnamese have realized sizeable returns. In the one day before the announcement date, the excess return of VN Index is significantly positive (0.4%).

Table 8 Excess return of VN Index around FOMC announcements (Unchanged interest rate decision)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
-5	0.001	0.932	95	-0.007	-0.922
-4	0.001	1.070	95	-0.004	-0.542
-3	-0.002	-1.068	95	-0.015	-1.603
-2	0.000	-0.028	95	-0.008	-0.946
-1	-0.003**	-2.123	95	-0.010	-1.091
0	-0.002	-1.605	95	-0.022**	-2.424
1	0.001	0.810	95	-0.005	-0.661

Table 8 Excess return of VN Index around FOMC announcements (Unchanged interest rate decision) (Cont.)

Day	Excess return	Tstat_ret	Obs	Oimsh	Tstat_oimsh
2	0.001	0.407	95	0.003	0.332
3	0.000	0.068	95	-0.015**	-2.002
4	0.001	0.763	95	-0.004	-0.550
5	0.000	-0.457	95	-0.014*	-1.788

* denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level, respectively.

In 95 events in which FOMC decides to maintain the federal funds rate at current level, the selling pressure remains in Vietnam securities market. One day before these dates, investors realized significantly negative returns. The negative returns are confirmed by powerful selling pressure before the announcement.

Table 9 Regression of upward interest rate events

	Dependent variable: Excess return			
	(1)	(2)	(3)	(4)
const	0.0001	0.0002	0.0001	0.0002
	-0.0002	-0.0002	-0.0002	-0.0002
dummy_lag3		-0.0094***		
		-0.0035		
dummy_lead1			-0.0049*	
			-0.003	
dummy_lead2				-0.0088*
				-0.0046

Robust standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.001

On one day of leading to upward interest rate decision and two days after, Vietnamese investors realized smaller return compared to other days. The coefficient of dummy variables on the three-day-lag, one-day-lead and the two-day-lead are significantly negative. On contrary, when FOMC announces it will decrease the interest rate, Vietnamese investors react positively. The excess returns around these optimistic announcements are significantly larger than other days. The announcement drift (H1) is confirmed in Vietnamese market when FOMC decides to cut the rate. Meanwhile, this paper cannot find evidence to support the hypothesis H2.

Table 10 Regression of downward interest rate events

	Dependent variable: Excess return				
	(1)	(2)	(3)	(4)	(5)
const	0.0001	0.0001	0.0001	0.0001	0.0001
	-0.0002	-0.0002	-0.0002	-0.0002	-0.0002
dummy_lag1		0.0915***			
		-0.0256			
dummy_lag2			0.0485*		
			-0.0261		
dummy_lead1				0.0911***	
				-0.0263	
dummy_lead2					0.0493*
					-0.0263
dummy_day0	0.0009				
	-0.0016				

Robust standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.001

Table 11 Regression of unchanged interest rate events

	Dependent variable: Excess return	
	(1)	(2)
const	0.0002	0.0002
	-0.0002	-0.0002
dummy_lag1		-0.0030**
		-0.0013
dummy_day0	-0.0025*	
	-0.0015	

Robust standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.001

For the unchanged events, the return on one day before and on the event is significantly smaller than return on other day. The date on which FOMC keep the interest rate unchanged consists of the majority of event dates (95 days over 116 days). It is likely that the investors in Vietnamese market attempt to sell their stocks before the event to avoid the exposure to this information. The hypothesis H3 cannot be confirmed.

Table 12 Regression of all FOMC meetings (scheduled and unscheduled meetings)

	Dependent variable: Excess return	
	(1)	(2)
const	0.0002	0.0002
	-0.0002	-0.0002
dummy_lag1	-0.0024**	
	-0.0011	
dummy_lag3		-0.0028**
		-0.0014

Robust standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.001

Using all the FOMC announcements (both scheduled and unscheduled), I find that before the event date, especially on a one-day lag and three-day lag, the excess returns of VN Index are significantly smaller than those from other days. For all the other days left from the duration of 5 days before and after the event, VN Index excess return is insignificantly different from other days.

Discussion and Conclusion

In this paper, I investigate the Vietnamese investor trading behavior around the FOMC meeting announcements. The sample contains 116 announcements from 2010 to 2022. I apply the univariate analysis and dummy regression to investigate the excess return on the duration of 5 days before and after the event. This paper finds the pre-announcement drift when FOMC decides to decrease the rate, while no such evidence is found when FOMC decides to increase or unchanged the interest rate. These results suggest that Vietnamese investors are more responsive to U.S. rate cuts than to rate hikes or unchanged rates, likely due to the perceived positive implications of lower rates, such as enhanced liquidity and potential economic growth.

The absence of a pre-announcement drift when the FOMC raises or maintains the interest rate indicates that Vietnamese investors may not expect substantial positive returns in these scenarios. This lack of significant movement in stock prices could also suggest that investors in frontier markets like Vietnam are more cautious and less speculative in response to tightening monetary policies. It may reflect an understanding that higher interest rates often signal a slowdown in economic activity, which would adversely affect market performance.

In terms of market behavior, the pre-announcement drift associated with rate cuts highlights the importance of interest rate decisions as a signal of future economic conditions. As U.S. interest rate cuts are often interpreted as an attempt to stimulate growth, Vietnamese investors may view these decisions as a favorable signal for global markets, prompting increased buying activity in anticipation of positive market reactions. This could explain why excess returns are observed before FOMC meetings where a rate cut is expected.

The findings also point to the possibility that Vietnamese investors adjust their portfolios more actively when they anticipate changes in U.S. monetary policy, particularly when the outlook is more favorable, such as with rate cuts. On the other hand, when rate hikes or unchanged rates are expected, the response from Vietnamese investors is more muted, possibly due to a belief that these announcements carry less positive or immediate impact on market conditions. This suggests that Vietnamese market participants are more reactive to potential growth catalysts and more reserved when confronted with tightening monetary policy.

The findings also indicate that Vietnamese equity market participants react mainly before and after the event yet avoid being exposed on the exact event date. This paper captures both the ex-ante and ex-post effect of FOMC announcement on Vietnamese equity index. The ex-ante impact of the announcement has puzzled previous researchers [11]. The excess returns on equity prices prior to the announcement may be the compensation for risk or the reflection of information leakage relating to actions of the Federal Reserve [5]. However, even when the news has been released, Vietnamese market continues to report significant excess return. This may due the efficiency of Vietnamese market. It takes more time to reflect fully on the new information. According [16], though the market efficiency has been improved since the official establishment of stock market in 2000, the weak-form efficient market hypothesis does not hold in Vietnamese market. This paper provides more evidence to the strand of research which confirms the importance of US monetary policy on foreign equity indices [5, 7,15, 21]. It implies that the investors in frontier market should pay attention to this type of information when making investment decisions.

The implications of these findings extend to both Vietnamese investors and policymakers. For investors, the research suggests that U.S. monetary policy, especially rate cuts, should be closely monitored, as it has the potential to impact market returns. Understanding this relationship could help investors in Vietnam better anticipate price movements and make more informed investment decisions. For policymakers, these results emphasize the need to consider the influence of foreign monetary policies on local market behavior. As global capital flows continue to play a significant role in the Vietnamese market, ensuring that the market is resilient to external shocks, such as changes in U.S. monetary policy, should be a priority. Additionally, these findings support the notion that U.S. monetary policy has a notable spillover effect on emerging and frontier markets, and that investors in these markets are highly sensitive to external developments.

In conclusion, this paper contributes to the literature on the impact of U.S. monetary policy on frontier markets by demonstrating that Vietnamese investors exhibit a distinct trading pattern around FOMC announcements, particularly in response to interest rate cuts. The absence of a pre-announcement drift in the case of rate hikes or unchanged rates suggests a more nuanced market response, highlighting the complexity of investor behavior in frontier markets. This study adds to the growing body of evidence on the importance of U.S. monetary policy in shaping global market dynamics and underscores the need for Vietnamese investors to pay close attention to these signals when making investment decisions.

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