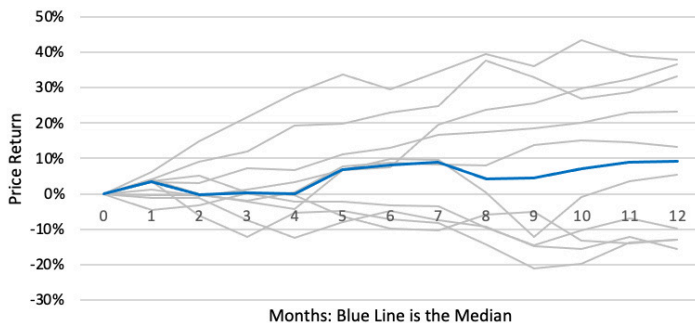




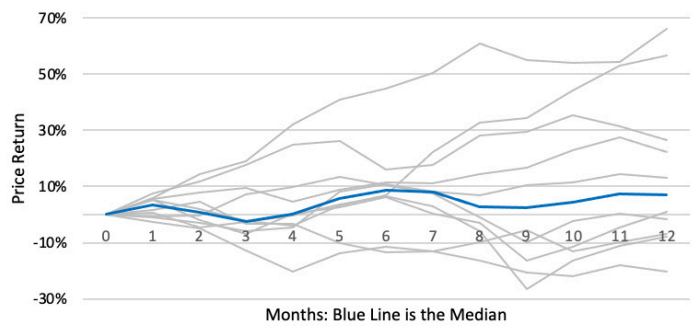
Fed Easing: Glass Half Full

- ▶ The Fed has kicked off its rate-cutting cycle with a bit of a bang, choosing to lower the Funds rate by 50 instead of 25 basis points. Fed Chair Powell's message was that they acted out of opportunity as opposed to necessity. While time will tell if this is true, we believe this is an important distinction.
- ▶ We remain in the soft landing camp, though have suggested that there are downside risks to our forecast. Starting with a 50 basis point cut may help mitigate those risks, which we find encouraging.
- ▶ From a historical perspective, the start of an easing cycle typically bodes well for stocks over a 12-month time horizon.
- ▶ However, the record is not spotless. There have been a few very painful market outcomes. Two of those occurred during the early 1980s when Fed Chair Paul Volker was ratcheting rates up to levels never seen before and then bringing them back down in rapid fashion. Unsurprisingly, stocks were volatile during this period. The other negative experiences occurred when the Fed had to respond to deteriorating economic conditions.
- ▶ In more benign easing cycles, a common factor was a relatively strong economy. Similar to today, economic conditions were resilient enough to endure higher rates without slipping into recession.
- ▶ We reviewed 10 easing cycles since 1980. The median price return for the S&P 500 Index in the 12 months following the first rate cut was 9.3%, while the Russell 2000 Index had a median return of 7.0%. Both indexes posted positive returns in 6 out of the 10 periods. We examined four additional easing cycles prior to 1980. In those four cycles dating back to 1960, S&P 500 Index delivered double-digit positive returns in each instance.

S&P 500 Index



Russell 2000 Index



Source: Bloomberg. The data begins with the month-end preceding the Fed's first interest rate cut.

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