

## Federal Reserve Tightening Cycle

This week we saw the US Federal Reserve raise rates in the region by 25 basis points to a new target range of 5.00-5.25%, while also indicating that a pause in rates may be appropriate at their next meeting on June 14<sup>th</sup>. Markets are also now pricing in no further rate increases – the vast majority are looking for a pause in June with around half now expecting the first cut to come in July, and fairly steady 25bp cuts from that point on.

Below we look at some statistics that explain what happened to the S&P 500 in the periods following the end of the last 10 Fed rate-hiking cycles, which cover five of the past decades. This shows similar figures to charts that we have explored before – such as the chart of the week on March 31<sup>st</sup> when we looked at the S&P 500's performance during and after a recession.

On a 1-month, 3-month, 6-month, and 1-year timeline, stocks in the US have been in the green between 60 – 80% of the time, boasting an average 6m return of over 5% and 1yr return of 14%.

### Final Federal Reserve Bank Hike In A Tightening Cycle (1970 - Current)

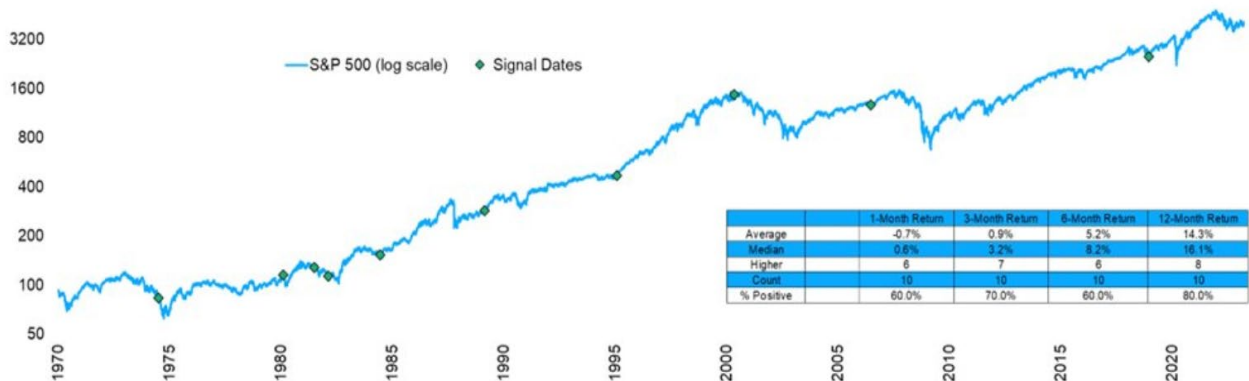
| Date       | Fed Funds Rate<br>(Upper Band) | S&P 500 Index Returns |          |          |           |
|------------|--------------------------------|-----------------------|----------|----------|-----------|
|            |                                | 1 Month               | 3 Months | 6 Months | 12 Months |
| 7/5/1974   | 12.0%                          | -5.2%                 | -25.6%   | -15.5%   | 12.8%     |
| 2/15/1980  | 20.0%                          | -9.8%                 | -7.0%    | 8.9%     | 10.7%     |
| 7/8/1981   | 20.50%                         | 3.4%                  | -7.0%    | -7.1%    | -16.4%    |
| 2/18/1982  | 17.0%                          | -2.8%                 | 0.9%     | -4.6%    | 30.3%     |
| 6/25/1984  | 13.0%                          | -3.3%                 | 7.3%     | 7.5%     | 22.8%     |
| 2/24/1989  | 11.50%                         | 1.6%                  | 11.2%    | 22.4%    | 12.9%     |
| 2/1/1995   | 6.0%                           | 3.2%                  | 10.6%    | 18.8%    | 35.2%     |
| 5/16/2000  | 6.50%                          | 0.9%                  | 1.3%     | -7.8%    | -12.4%    |
| 6/29/2006  | 5.25%                          | 0.3%                  | 5.2%     | 11.9%    | 19.4%     |
| 12/19/2018 | 2.50%                          | 5.0%                  | 11.7%    | 17.7%    | 27.9%     |
| Average    |                                | -0.7%                 | 0.9%     | 5.2%     | 14.3%     |
| Median     |                                | 0.6%                  | 3.2%     | 8.2%     | 16.1%     |
| % Higher   |                                | 60.0%                 | 70.0%    | 60.0%    | 80.0%     |

Carson Investment Research, Bloomberg

Below we can see a 'log scale' chart of the same data from the table above. Each green dot signifies a point in time when the Fed stopped hiking rates. Log-scale charts make this data easier to read when we are looking at longer timeframes – since we usually deal with percentages in equity markets rather than absolute figures.

### If The Fed Is Done Hiking, That Doesn't Mean Stocks Have To Go Lower

Last Hike In Federal Reserve Bank Rate Hiking Cycles



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