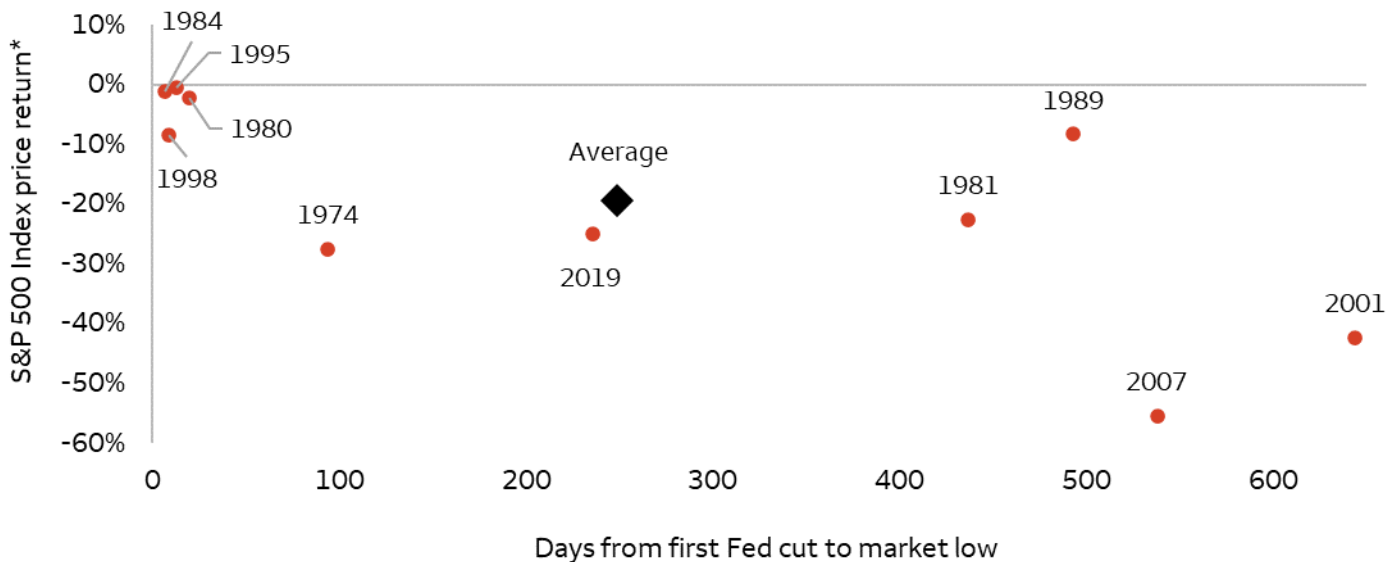


Chart of the Week

Weekly market analysis on key market indexes

June 25, 2024

First rate cut correlated with stock market drawdown



Sources: Bloomberg, Strategas, and Wells Fargo Investment Institute. Data as of June 10, 2024. Fed = Federal Reserve. *S&P 500 Index price return reflects return from the first Fed rate cut to the subsequent market low. Data labels indicate the year of the initial Fed rate cut. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Why investors should not equate the first Fed rate cut as an all-clear stock market signal

A major driver of equity returns this past year has been the progress on bringing inflation down and the resultant switch in investor focus, from fearing potential future Federal Reserve (Fed) rate hikes to cheering potential future Fed rate cuts. This week's chart addresses a common question around the topic — how has the market reacted to prior rate cuts?

Historically, the arrival of a Fed rate cut cycle has tended to coincide with a sizable stock market drawdown. The chart above illustrates this by plotting the S&P 500 Index return along with the days from the first Fed rate cut in a cycle to the subsequent index low. Since 1974, the average drawdown has been roughly 20% over the 250 days following the first Fed rate cut. In other words, investors should not equate the first rate cut as an all-clear stock market signal.

What it may mean for investors

In our view, investor focus should be on the rationale for the cut. If the Fed tweaks policy to adjust real rates for falling inflation, we believe stocks should likely perform well over the tactical time frame. Alternately, if the Fed is forced to cut aggressively in response to a macro or market disruption, we would expect stock performance to suffer. Our forecast more closely resembles the former scenario, with our year-end 2025 S&P 500 Index target range at 5600 – 5800. We remain favorable on U.S. Large Cap Equities and would view periods of equity market weakness as potential opportunities.

Austin Pickle, CFA; Investment Strategy Analyst

Excerpted from *Investment Strategy* (June 17)

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Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market.

An index is unmanaged and not available for direct investment.

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