BULL & BEAR *Bulletin*

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Making History or Repeating History

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It is growing more probable that the Federal Reserve is about to embark on a rate cut cycle. After raising interest rates to what appears to be a restrictive level for the economy, slowing growth and disinflation—especially in the goods side of the economy have been the result. One part of the Federal Reserve's dual mandate is stable prices and the Personal Consumption Expenditures Price Index has been trending lower to a rate of 2.5% year-over-year for the month of June, closer to their 2% target. The other side of the mandate is maximum employment. However, for the month of July, the unemployment rate came in at 4.3% which has been rising since July 31, 2023. This triggered the Sahm Rule, which is a statistical observation that states that when the three-month average U.S. unemployment rate has risen by 0.50% or more from its 12-month low, a recession is underway. Thus, many believe the Fed will begin to cut rates in their next meeting in September.

However, recently for the month of July, The Institute for Supply Management (ISM) Services PMI (Purchasing Managers' Index) registered 51.4%, which indicates expansion in the services part of the economy. Retail sales for the month of July also beat expectations recently. This was important in that the stronger print demonstrated that June's weakness in this same data set did not necessarily portend an imminent consumer driven downturn. While these are some of the recent indicators showing signs of a softer landing in the economy that refute the "imminent recession" crowd, it really does remain to be seen whether they are signs of an inflection towards a better growth trend or a final burst of resilience before further deterioration in income and consumptive power.

Let's look back at some of the historical rate cut cycles and how the S&P 500 has fared. One cycle was the period from January 3, 2001 to June 24, 2003. Total S&P 500 return was -24.19%. Another cycle occurred from September 18, 2007 to December 15, 2008. Total S&P 500 return was -41.18%. Finally, the most recent cycle was from July 30, 2019 to March 14, 2020, in which the total S&P 500 return was -8.86%. Historically, it appears that it is not until the last cut before the equity market starts to turn around. Usually, the reason behind the Federal Reserve cutting rates is the clear observation in data that the economy is hitting a wall and beginning a contractionary phase. Many people have been speaking to the idea of a soft landing where the Federal Reserve is able to tighten monetary policy enough without causing a recession. There has only been one soft landing in recent decades and that was in 1994. Additionally, since 1970, the Sahm Rule has never failed. Will this time be different or will we experience the only other soft landing in history?