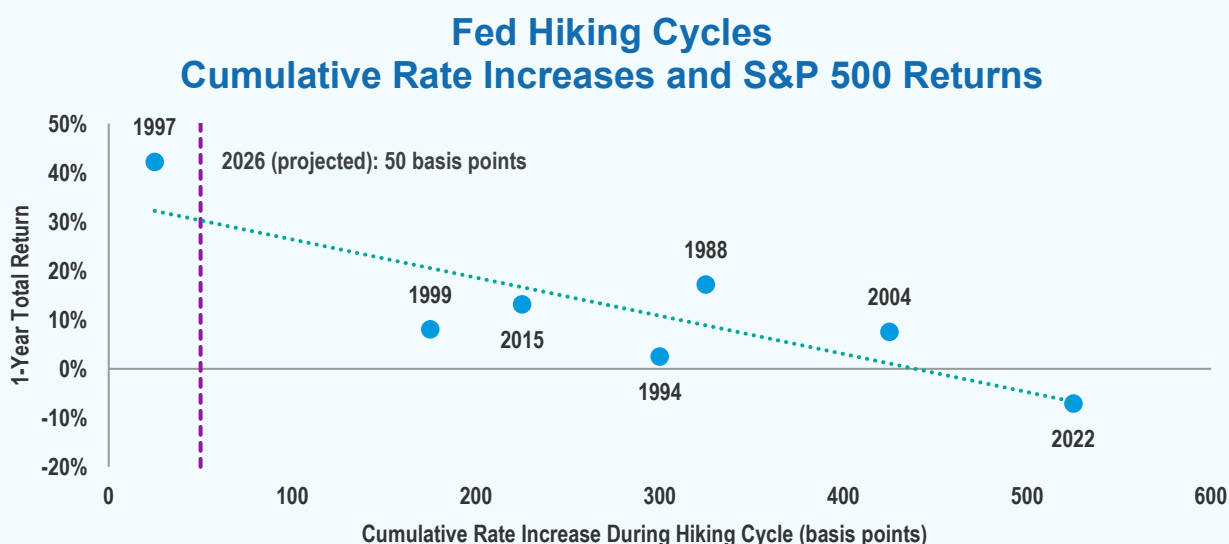


Not All Tightening Cycles Are Created Equal

For the first time in over three years, the Federal Reserve (Fed) raised interest rates this September, prompting concern among investors that tighter monetary policy will be a headwind for equities. That worry, however, deserves some nuance. The size and duration of prior tightening cycles have varied dramatically, and so have the equity returns that followed. What does that history suggest about the cycle now under way?



Source: FactSet, S&P Global, and Alger. Each hiking cycle is labeled by the year of its first rate increase. Cumulative increases are measured from the first to the last increase in the federal funds target rate. S&P 500 Index 1-year total returns are measured from the close on the trading day before each cycle's first rate increase. 2026 cycle estimated at 50 basis points based on the FOMC's September 2026 Summary of Economic Projections. The green trend line is for illustrative purposes only and does not represent a forecast of future returns. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

- Since 1988, Fed hiking cycles have averaged nearly 300 basis points (bps). The most aggressive was the 525 bps increase in 2022-2023, when the Fed addressed surging inflation fueled in part by enormous fiscal and monetary stimulus during the Covid-19 pandemic. The smallest was the quick one-and-done rate hike in 1997.
- As shown in the chart above, the S&P 500 has generally risen in the year following the first Fed rate increase. The extent of those gains, though, has depended on the magnitude of the hiking cycle and the economic backdrop. The strongest one-year return came after the 1997 hike, when the Fed raised rates 25 bps without having a major inflation problem. The weakest one-year return came after the first hike of 2022, when the Fed began tightening from near-zero rates with inflation already at a four-decade high. In short, equities have historically fared better at the outset of modest tightening cycles, as the green trend line illustrates.
- Based on the Fed's own projections, the current hiking cycle is expected to total just 50 bps, mild by historical standards and much more akin to 1997 than to 2022. In our view, the U.S. economy is well equipped to absorb it. Consumer spending and employment remain healthy, and business investment is growing several times faster than U.S. GDP, driven in large part by the artificial intelligence buildout.¹ As a result, we believe the economy and equity market can continue to expand, and that secular growth equities driven by innovation rather than the direction of interest rates may be well positioned in this environment.

¹ Bureau of Economic Analysis, Q2 2026 GDP; Bureau of Labor Statistics, August 2026 Employment Situation. Real consumer spending grew 3.4% and business investment 8.5% versus GDP growth of 1.5%, annualized; unemployment was 4.1% as of August 2026.

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