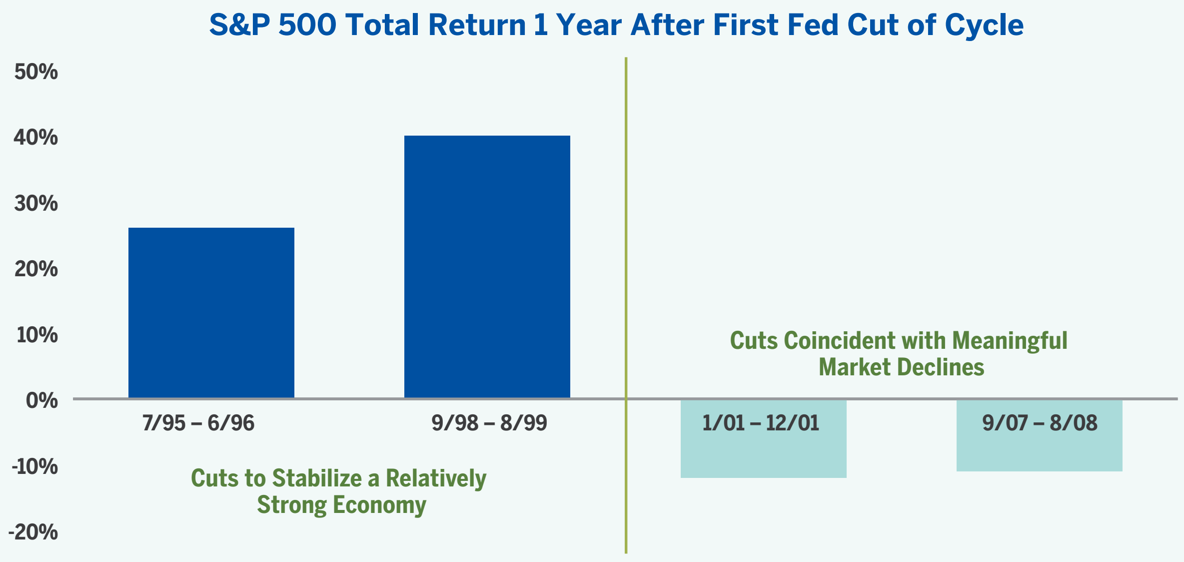
After the First Cut

The Federal Reserve meets July 30-31 to discuss possible monetary policy actions. Expectations are for the first rate cut since December 2008. But what might this mean for the economy and investors?



Source: FactSet. Rate cuts occurred in July 1995, September 1998, January 2001 and September 2007. The performance data quoted represents past performance, which is not an indication or a guarantee of future results.

- In the last 25 years, when rate cuts have been used to stabilize a relatively strong economy, the market has gone on to produce gains. The key to the outcome has been whether the cut occurs in response to large cyclical imbalances that could result in a recession or whether the cut seeks to balance a relatively solid economy that faces challenges. In fact, when the Fed has made its first cut and the Leading Economic Index was positive, as it is today, the returns have been positive in each instance since 1971 over the next 3, 6, 9 and 12 months.[1]
- Market declines following cuts in 2001 and 2007 transpired after the tech bubble burst and the global financial crisis, respectively, and therefore may be less analogous to the current situation.
- Today's economy and strong innovation may resemble 1995 or 1998 when underlying growth in innovation was strong but hiccups in the economy or markets, e.g., the Asian currency crisis in 1998, caused the Fed to loosen monetary policy.
- If the economy can avoid a recession in the near term, history suggests that the first rate cut is something for investors to welcome and may lead to additional stock market gains.

[1] Fundstrat.

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