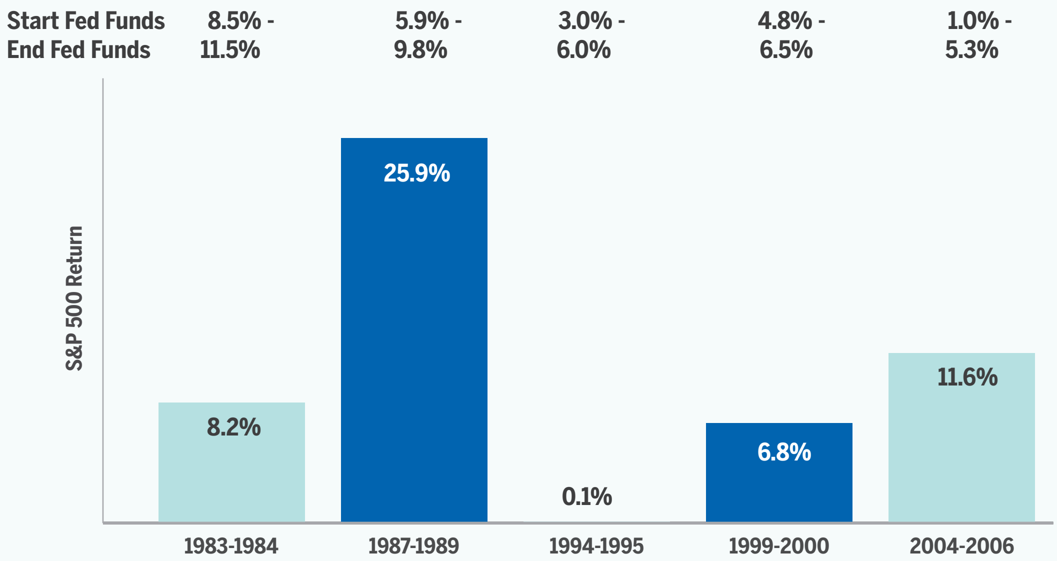
Alger On the Money

Are Fed Hikes Bad for the Market?

Anticipation of inflation and increases in the Fed Funds rate by the Federal Reserve have traditionally sent the stock market reeling. History, however, indicates that equities tend to rise alongside the Fed Funds rate.

Past Fed Rate Hike Cyles Have Ended with Positive Market Returns



Source: S&P, Federal Reserve, Haver, RBC Capital Markets.

- During each of the last five completed rate tightening cycles, the S&P 500 climbed, averaging a 10.5% increase over these five cycles.
- Typically, these gains have occurred because the Fed tends to raise rates gradually in small increments, and rate hikes take time to impact the economy. The Fed's own model demonstrates that a 100 bp increase in short-term rates slows the economy 40 bps and only after a few quarters. Just as important, the economy is typically strengthening as the Fed hikes rates.
- Currently we may be as far as 175 bps away from the forecasted peak of the current tightening cycle, which may mean equities have room to run as the Fed continues to attempt to normalize rates.[1]

[1] Estimated future Fed rate hikes based on "Economic Projections of Federal Reserve Board Members and the Federal Reserve Bank Presidents," March 2018.

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