

We Can Expect Eleven Rate Hikes Through 2024

Understanding how markets have reacted to previous Fed-hiking

At their recent March meeting, the Federal Reserve moved its fed funds target rate from near zero to a range of 0.25% to 0.50%. It was the first rate hike since 2018.

But the Fed also released the so-called "dot plot," which shows where individual Fed officials expect interest rates to be. And given the surge in inflation numbers – from the perspectives of both consumers (CPI) and producers (PPI), the majority now expect seven hikes in 2022, four in 2023 and none for 2024. (In other words, there could be a rate hike at every remaining Fed meeting this year and at half the meetings next year.)

If this comes true, it would be higher than the Fed's estimate of the long-run neutral rate, (which is 2%), and would suggest a more hawkish policy that could be more restrictive to growth.

Interestingly enough, when the Fed raised rates 25 basis points and released its "dot plot," stocks rallied, suggesting that Wall Street appreciates the path that has been outlined. But how have markets responded to previous Fed hiking-cycles?

Let's examine the more recent cycles where the Fed has hiked rates, along with the change in rates and S&P 500 returns.

The Five Tightening Cycles Since 1985

The Fed's Tightening Cycles	Duration in Months	Number of Hikes	Change in Policy Rate	S&P 500 Returns
1987-1989	22	12	3.5%	5%
1994-1995	12	7	2.1%	1%
1999-2000	11	6	1.0%	10%
2004-2006	24	17	3.7%	16%
2015-2023	36	9	2.3%	28%
2022-2023*	21	11	2.6%	?

*PROJECTED Source: FactSet

Will Rising Rates Stifle Growth?

Economists love to espouse the notion that rising rates are bad for stock markets, as rising rates eat into future profits. And in theory, this makes sense. But here are a few things to keep in mind.

Investment advisory services offered through Laurel Wealth Advisors, Inc., a Registered Investment Advisor. Securities offered through Charles Schwab & Co., Inc. Member FINRA/SIPC. The information on this website has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority; registration as an Investment Advisor does not imply a certain level of skill or training. Please refer to "Important Disclosures & Disclaimers" for additional details. Four C Financial offers some securities through M.S. Howells & Co. Member FINRA/SIPC. M.S. Howells & Co. is not affiliated with Four C Financial.

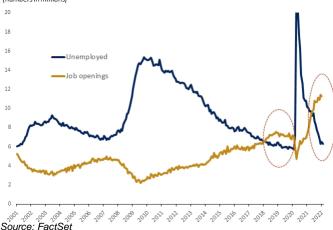


fourCfinancial.com

First, forecasts for 2022 GDP growth is estimated by the Fed to be 2.8%. Yes, this is down from just a few months ago, but it's still well above the 2.0% average from the last 10 years.

Next, unemployment (3.8%) is still very low – in fact it's nearly at record lows. Further, the number of job openings exceed the number of unemployed by the widest margin in the past 20 years. This suggests that we will be in a tight labor market for a while.

Record job openings exceed number of unemployed



Wall Street Reacted Differently This Time

Looking at the five tightening cycles since 1985, stocks have generally struggled around the first interest rate hike but then generally headed upwards six months and a year later.

That, of course, did not happen this time as stocks leapt after the Fed raised rates 25 basis points on March 16. In fact, consider that for the week that the Fed raised rates, investors saw:

- The tech-laden NASDAQ leap an astonishing 8.2%;
- The large-cap S&P 500 jump 6.2%;
- The mega-cap DJIA gain 5.5%; and
- The small-cap Russell 2000 advance 5.4%.

Will future Fed hikes continue to fuel such rallies? Very, very unlikely.

But maybe the projected 2.8% GDP growth rate and our current 3.8% unemployment rate are more powerful relative to that 25 basis point rate increase? Whether that is true or not is, of course, anyone's guess.

Nonetheless, you might do well by remaining optimistic during future Fed rate hikes.

Investment advisory services offered through Laurel Wealth Advisors, Inc., a Registered Investment Advisor. Securities offered through Charles Schwab & Co., Inc. Member FINRA/SIPC. The information on this website has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority; registration as an Investment Advisor does not imply a certain level of skill or training. Please refer to "Important Disclosures & Disclaimers" for additional details. Four C Financial offers some securities through M.S. Howells & Co. Member FINRA/SIPC. M.S. Howells & Co. is not affiliated with Four C Financial.

