



The Fed Cut Rates for the Third Time in 2019

History suggests that equity investors should hope the Fed is done cutting

The Federal Reserve, once the institution that rarely spoke, sure seems to find itself in the news a lot this year.

- In July, the Federal Reserve cut interest rates for the first time since 2008.
- In September, the Federal Reserve cut interest rates for the second time.
- In mid-October, the Fed announced its intent to buy short-term Treasury debt at an initial pace of \$60 billion a month.
- At the end of October, the Fed cut interest rates for the third time.

All of these moves are designed to boost a slowing economy.

Is the Fed Done Cutting This Year?

In fairly strong language, the Fed telegraphed that it may be done trimming rates, at least in the short term (there is only one more Fed meeting in mid-December).

“We took this step to help keep the economy strong in the face of global developments and to provide some insurance against ongoing risks,” Fed Chair Jerome Powell said. “We see the current stance of monetary policy as likely to remain appropriate as long as

incoming information about the economy remains broadly consistent with our outlook.”

Fed-watchers interpret the Fed’s language to mean that another rate cut in December isn’t going to happen, unless the economy takes a turn for the worse.

When the Fed Cuts Three Times

In the past 25 years, there were four periods when the Fed cut rates three or more times. And according to data from Kensho, an artificial intelligence data gathering platform, when the third cut was the last cut, stocks got a healthy boost in the following year.

But when the third rate cut was not the final rate cut and was followed by a fourth, fifth, sixth, seventh, eighth, ninth and tenth (and once even an eleventh), stocks tanked.

Three Times a Charm

Is it déjà vu all over again?

- Between July 1995 and January 1996, the Fed cut rates three times, for a total of 75 basis points
- Between September and November in 1998, the Fed cut rates three times, for a total of 75 basis points

During both of those time frames, the Fed cut rates three times and then stopped. In each of these cases the S&P 500 returned 24.76% and 19.39%, respectively, over the next year.

It should also be noted that:

- For the calendar years 1995 and 1996, during and after those 3 rate cuts, the S&P gained 34.11% and 20.26%, respectively.
- For the calendar year 1998, during and after those 3 rate cuts, the S&P 500 gained 28.58%.

Let's hope the Fed stops its 2019 rate cutting at 3.

More Than Three Stinks

There have, however, been other times when the Fed just kept cutting rates.

- In 2001, the Federal cut rates a whopping 11 times, including four times after September 11th
- In 2007 and through December of 2008, the Fed cut rates 10 times, bottoming out in December 2008 at a range between 0% and 0.25%

During those cutting cycles, the S&P 500 dropped 12.64% and a stunning 42.37% one year later.

It should also be noted that:

- For the calendar years 2001 and 2002, during and after those 11 rate cuts, the S&P dropped 11.89% and 22.10%, respectively.
- For the calendar years 2007 and 2008, during and after those 10 rate cuts, the S&P 500 gained 5.49% and plummeted 37.00%, respectively.

Let's hope the Fed doesn't cut rates 7 or 8 more times.