

Making Sense

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The Fed has Hiked Aggressively. How Will Markets React?

In this month's webinar, we discussed the upcoming Federal Reserve rate decision, shared an economic update, and talked through some potential paths for markets going forward.

Is this the end of the Fed's rate hiking cycle?

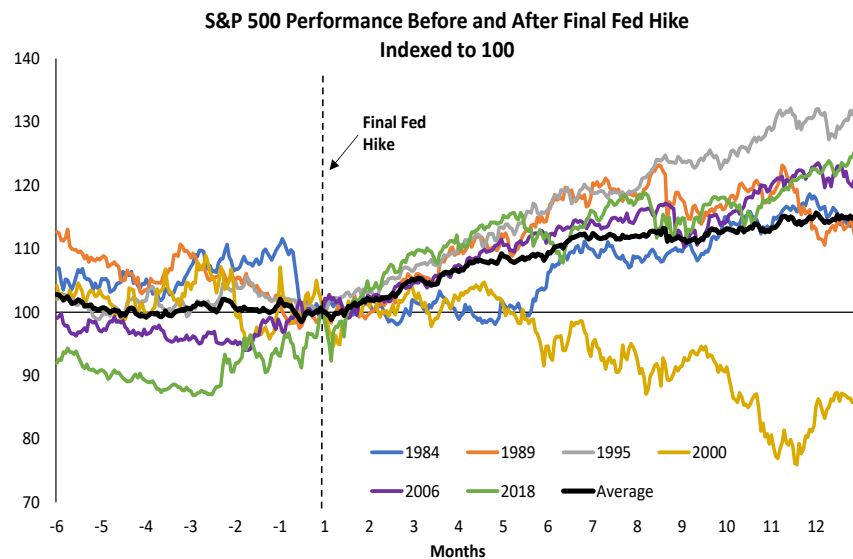
In attempts to lower inflation, the Federal Reserve's Federal Open Market Committee raised rates in each of its last nine meetings, bringing the current rate to 4.75-5.00%.ⁱ The rate of year-over-year consumer inflation has moderated each month following its 9.1% peak last June. The latest U.S. Bureau of Labor Statistics' report measured inflation at 5.0%—the lowest since May of 2021.ⁱⁱ

We, and consensus, believe the Fed will likely increase rates by another 0.25% at the FOMC's May 3rd meetingⁱⁱⁱ, **but then pause future hikes to allow the economy to catch up with the rapid increase of rates. We do not believe the Fed will immediately begin cutting rates, as they are in no rush to undo the work done over the past year.**

What might a pause in rate hikes mean for markets?

In Figure 1 below, the vertical dotted line indicates the final hike of historical cycles. Since 1984, the S&P 500 performed well in the twelve months following final rate increases, with the 2000 period being the notable exception. For the six time periods listed, the average cumulative return twelve months following the final Fed hike is 15%. In the 2000 period, the Fed began cutting rates just six months after its final hike, and the market contended with the unwind of the dot-com bubble.

Figure 1^{iv}



Our Bottom Line for Markets

Our base case S&P 500 price target for the next twelve months is 4,100, near the index's current level. **We continue to believe markets will experience a bumpy road this year. Having the right balance between stocks and bonds as part of a thoughtful and strategic financial plan will help you reach your return goals.**

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ⁱ Federal Reserve.org, Federal Open Market Committee news releases and reports

ⁱⁱ U.S. Bureau of Labor Statistics, Consumer Price Index News Releases

ⁱⁱⁱ Bloomberg, 4/26/2023

^{iv} Goldman Sachs, Strategas Research, Bloomberg