



Proactive rate cuts near market highs have had more positive effect on equity returns than reactive rate cuts during market pull backs. On Average, the S&P 500 delivered positive returns over 1, 3, 6, and 12-month periods following a rate cut when the market was within 5% of an all-time high.

The Federal Reserve has three key objectives related to monetary policy – maintaining maximum sustainable employment, maintaining stable prices, and moderating long-term interest rates. The first two objectives are often referred to as the Fed’s “dual mandate”. One of the Fed’s primary tools for achieving this mandate is influencing short-term interest rates via setting a target for the federal funds rate, which is the rate that banks that charge each other for the overnight lending of funds. If the Fed believes that inflation and/or the economy are overheating, it will often try to counteract this by increasing the fed funds target rate; conversely, the Fed can try to combat economic weakness or high unemployment by reducing the target rate, with the hope of reducing the cost of borrowing and thereby spurring economic activity. While they are not an explicit component of its mandate, changes in the Fed’s monetary policy often have an observable effect on US securities markets. Fed rate policy can also have important implications for the US stocks. So, what’s in store for the US equity market now that the Fed cut rates?

## Rate Cuts Near Equity Highs

**Rate Cut When S&P 500 <= 5% From High**

Date	S&P 500 TR Forward Returns				
	1MO	3MO	6MO	9MO	12MO
7/13/1990	-7.41%	-16.65%	-13.29%	6.64%	7.87%
3/8/1991	1.20%	1.82%	5.30%	3.34%	11.53%
4/30/1991	3.53%	3.87%	6.40%	12.30%	14.03%
8/6/1991	-0.08%	0.69%	7.63%	9.12%	11.02%
9/13/1991	0.98%	1.04%	7.43%	9.47%	14.32%
10/31/1991	-2.41%	4.95%	7.31%	10.57%	11.06%
11/6/1991	-2.50%	6.89%	8.37%	10.26%	10.40%
12/6/1991	10.49%	7.47%	10.70%	11.78%	18.33%
12/20/1991	7.76%	7.03%	5.80%	11.57%	17.33%
4/9/1992	4.75%	4.20%	2.07%	10.03%	15.25%
7/2/1992	3.41%	0.45%	7.35%	9.58%	11.52%
9/4/1992	-2.02%	4.40%	8.82%	10.29%	13.12%
7/6/1995	1.25%	5.82%	13.00%	18.37%	20.58%
12/19/1995	0.14%	7.10%	9.42%	13.56%	24.61%
1/31/1996	0.93%	3.40%	1.77%	12.79%	26.34%
11/17/1998	3.71%	7.80%	18.34%	19.13%	25.43%
9/18/2007	1.47%	-3.80%	-11.51%	-10.61%	-18.91%
10/31/2007	-4.18%	-10.55%	-9.64%	-16.89%	-36.10%
Average	1.17%	2.00%	4.74%	8.41%	10.99%

**Rate Cut When S&P 500 > 15% From High**

Date	S&P 500 TR Forward Returns				
	1MO	3MO	6MO	9MO	12MO
10/29/1990	5.31%	12.31%	25.94%	30.20%	34.14%
3/20/2001	8.88%	7.39%	-13.27%	0.78%	2.19%
4/18/2001	4.49%	-2.14%	-13.11%	-7.99%	-7.93%
5/15/2001	-2.68%	-5.38%	-7.94%	-10.69%	-11.45%
6/27/2001	-0.34%	-15.59%	-3.77%	-4.49%	-17.01%
8/21/2001	-16.45%	-1.40%	-5.94%	-5.69%	-16.75%
9/17/2001	3.80%	9.58%	13.00%	0.81%	-14.64%
10/2/2001	3.52%	10.24%	8.87%	-8.82%	-20.03%
11/6/2001	4.48%	-2.81%	-5.27%	-22.32%	-16.13%
12/11/2001	0.91%	3.14%	-10.19%	-19.07%	-19.09%
11/6/2002	-1.06%	-8.82%	2.08%	6.13%	16.64%
6/25/2003	2.53%	3.33%	13.38%	15.24%	18.36%
1/22/2008	3.49%	5.55%	-1.52%	-30.43%	-35.30%
10/8/2008	-6.46%	-6.91%	-14.92%	-8.78%	11.08%
10/29/2008	-11.93%	-8.42%	-4.62%	7.08%	17.69%
12/16/2008	-6.68%	-16.76%	1.30%	19.36%	24.51%
Average	-0.51%	-1.04%	-1.00%	-2.42%	-2.11%

Rate Cuts Near Equity Highs Have Historically Been Positive For Equities

Please contact us to learn more about rules-based disciplined investing and how it can help your clients. The Bluegrass Asset Management team can be reached at 502-429-0196, ask for John Casconi, Rodger McAlister or Jennifer Grilliot.