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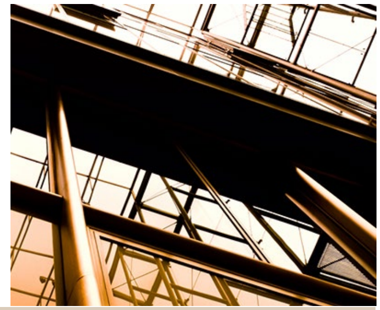
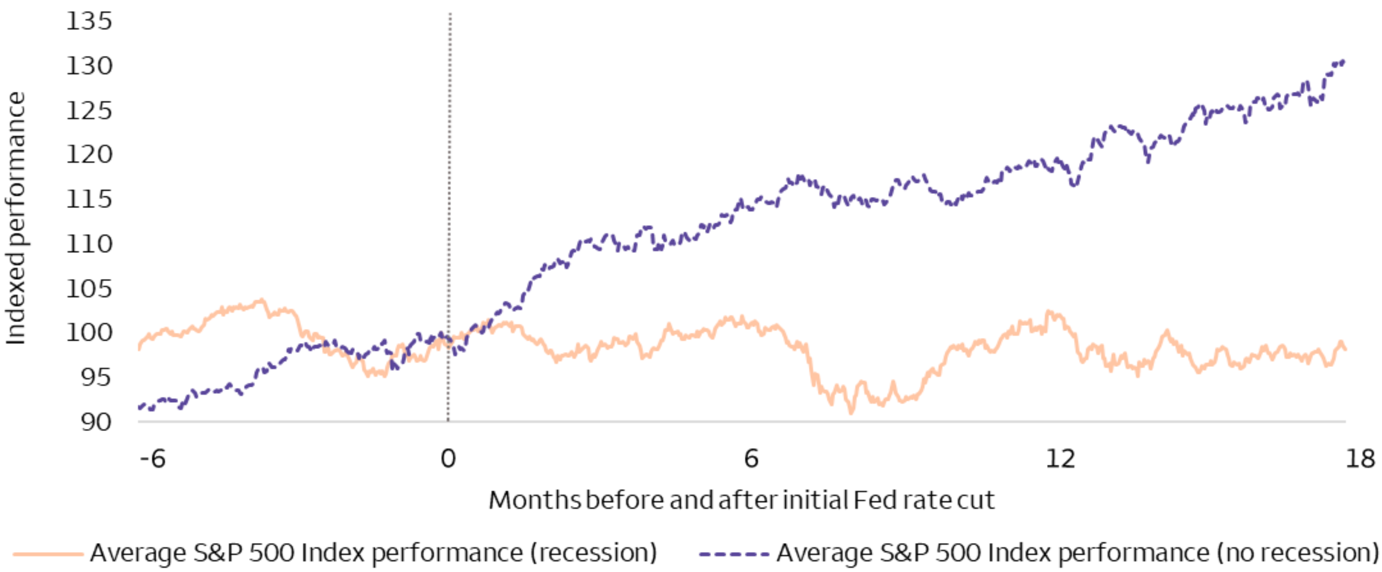
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes **August 13, 2024**

What equity investors should look for as rate cuts near



Sources: Ned Davis Research, Bloomberg, and Wells Fargo Investment Institute. Data as of August 6, 2024. Indexed to 100 as of the initial rate cut to measure performance. Recession cases include the cutting cycles that began May 30, 1980; November 2, 1981; January 3, 2001; September 18, 2007; and July 31, 2019. No-recession cases include the cutting cycles that began November 21, 1984; June 6, 1989; July 6, 1995; and September 29, 1998. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

When the Federal Reserve (Fed) cuts in response to falling inflation, equities have performed well

Historically, the reason the Fed begins to ease policy has been important to equity-market performance. Since 1974, the average drawdown has been roughly 20% over the 250 days following the first Fed rate cut. However, the average includes several bear markets associated with economic and earnings recessions — a scenario we view as unlikely in 2025. Digging a little deeper into the data reveals a much different picture in non-recessionary periods.

The chart above shows average S&P 500 Index performance from 6 months prior to the initial rate cut to 18 months past the initial rate cut. Historically, the index has continued its upward trajectory 18 months past the initial cut in periods when the Fed easing cycle did not correspond with a recession. Alternatively, when the Fed rate cut cycle did correspond with a recession, performance was choppy before ending essentially flat over the 18-month period.

What it may mean for investors

Our view is that the Fed will reduce rates in September as it shifts from fighting inflation to stimulating the economy and hiring, a scenario that has historically corresponded with equities performing well. While a recession is possible, our work suggests a greater likelihood of a near-term economic slowdown, followed by a recovery in 2025. Accordingly, we remain favorable on U.S. Large Cap Equities and recently eliminated our tactical underweight to U.S. Small Cap Equities.

Chris Haverland, CFA; Global Equity Strategist Excerpted from *Investment Strategy* (August 12)

Risk Considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign** investing has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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