

What does the first rate cut mean for stocks?

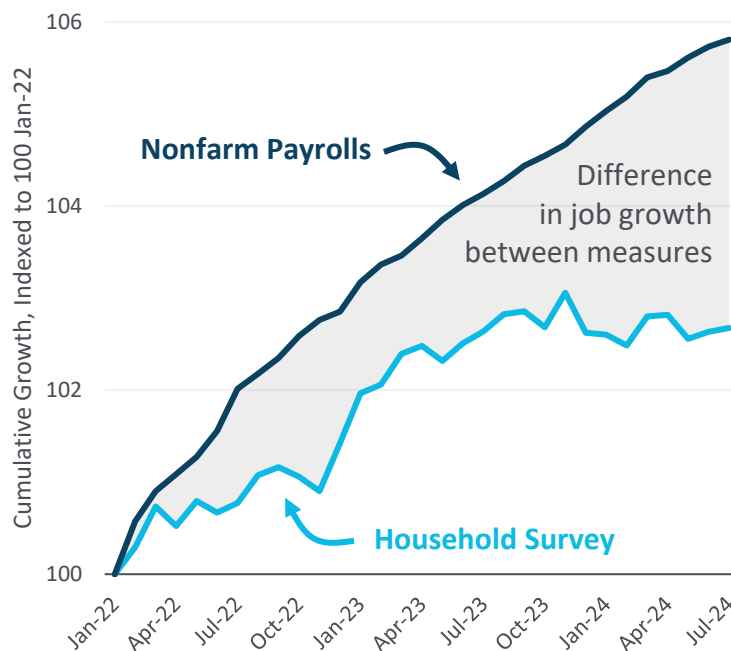
Select Dividend – September 2024

A Recession is a Process not an Event

Recessions are a reflexive process defined by the labor market, the timing of which is dependent on when people start losing jobs. Confidence and spending then decline which ultimately feed into corporate earnings – the main driver for stock prices.

The ‘Sahm Rule’* worked historically because it identified higher unemployment due to job losses. But the employment rate is moving higher due to strong labor force growth through both higher worker participation and immigration. Further, the Sahm Rule relies on the Household Survey (“HS”), which may underrepresent the effects of immigration on unemployment compared to other sources like the Nonfarm Payrolls (“NP”). While NP does not provide unemployment data like HS, the comparison on employment offers a stark contrast.

Employment Measures | Annual Growth

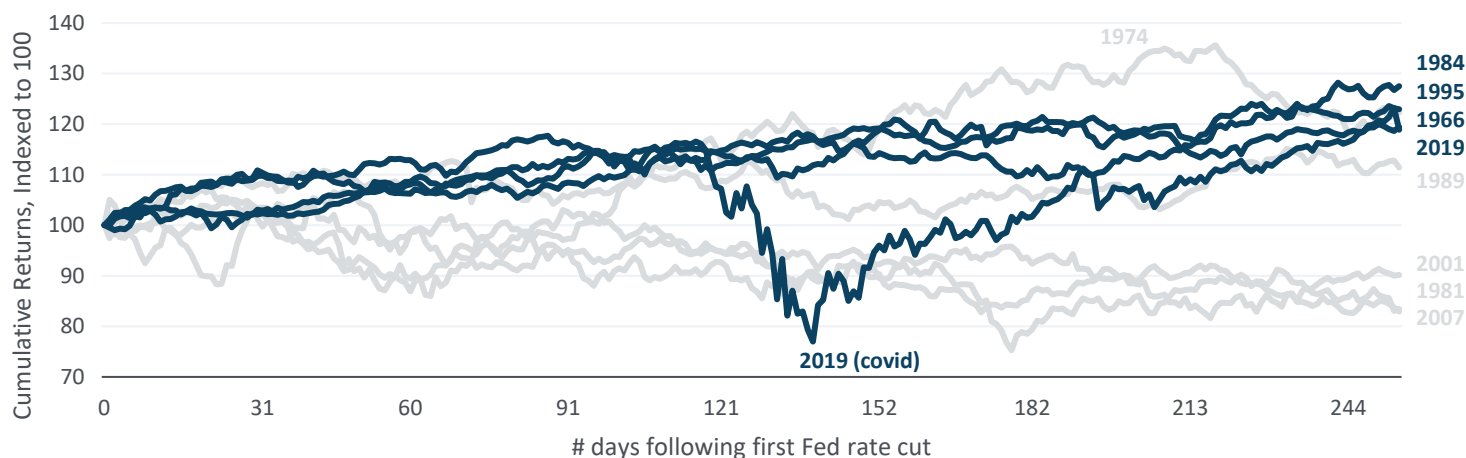


Stocks can rally when the Fed cuts rates proactively

Central bankers are easy punching bags for Monday morning quarterbacks. Most investors remember the Fed’s mistakes, like Bernanke declaring the subprime crisis ‘contained’ in May 2007. The Fed has often been behind the curve and had to cut rates in response to negative developments.

But many forget the proactive rate cuts that have paved the way for further equity gains. Greenspan’s mid-cycle course correction in 1995 might be the most canonical example. Proactive rate cuts in 1984 and 1966 led to further rallies and the 2019 cuts were on track until a global pandemic derailed the Fed’s plans.

S&P 500 tends to rally when the Fed cuts proactively



Source: Bloomberg, TS Lombard, Federal Reserve Bank of St. Louis as of 7/31/24. Past performance is no guarantee of future results. An index is unmanaged and unavailable for direct investment.

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