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tightenings and recessions and bears, oh my!

TIGHTENING INTEREST RATES

Even now that the December 2015 Federal Reserve Meeting has passed, there is still significant market concern that an increase in the Federal Funds Target Rate may lead to a recession and/or trigger a bear market in stocks. With apologies to Dorothy, let's look at what history tells us about the Fed increasing rates and any subsequent recessions or bear markets, oh my.

TABLE 1

	FED TIGHTENING CYCLE DATES (BEGINNING - END)*	DAYS IN TIGHTENING CYCLE*	DJIA BEAR MARKET DATES (BEGINNING - END)**	DAYS FROM FIRST RATE HIKE - BEAR MARKET START**	NBER RECESSION DATES (BEGINNING - END)	DAYS FROM FIRST RATE HIKE - RECESSION START***
1	12/21/17 - 5/04/21	1,230	11/03/19 to 8/24/21	682	Aug 18 - Mar 19 Jan 20 - Jul 21	253 771
2	2/23/23 - 4/30/24	432	none	none	May 23 - Jul 24	97
3	2/27/25 - 4/22/26	418	none	none	none	none
4	8/13/26 - 8/04/27	356	none	none	Oct 26 - Nov 27	79
5	2/03/28 - 11/14/29	650	9/03/29 - 11/13/29	578		
6	10/09/31 - 2/25/32	139	3/08/32 - 7/08/32	151	Aug 29 - Mar 33	575
7	3/03/33 - 4/06/33	34	7/18/33 - 10/19/33	109		
8	4/25/46 - 2/04/54	2,482	5/29/46 - 6/13/49	34	Nov 48 - Oct 49	950
9	4/15/55 - 11/14/57	944	none	none	Aug 57 - Apr 58	869
10	9/12/58 - 6/09/60	636	12/13/61 - 6/26/62	1168	Apr 60 - Feb 61	596
11	7/17/63 - 4/06/67	1,359	2/09/66 - 10/07/66	938	none	none
12	11/20/67 - 8/29/68	283	12/03/68 - 5/26/70	379	none	none
13	12/18/68 - 11/12/70	694	none	none	Dec 69 - Nov 70	378
14	7/16/71 - 11/18/71	124	none	none	none	none
14	3/31/72 - 7/30/74	851	1/11/73 - 12/06/74	286	Nov 73 - Mar 75	609
16	4/21/76 - 9/30/76	162	9/21/76 - 2/28/78	153	none	none
17	8/01/77 - 4/21/80	994	none	none	Jan 80 - Jul 80	913
18	10/21/80 - 3/30/81	160	4/27/81 - 8/12/82	182	none	none
19	5/18/81 - 7/06/81	49	none	none	Jul 81 - Nov 82	74
20	2/01/82 - 5/17/82	105	none	none	none	none
21	3/01/84 - 8/29/84	181	none	none	none	none
22	1/24/85 - 3/27/85	62	none	none	none	none
23	7/25/85 - 12/17/85	145	none	none	none	none
24	5/22/86 - 7/10/86	40	none	none	none	none
25	12/04/86 - 7/01/87	209	8/25/87 - 10/19/87	264	none	none
26	8/27/87 - 10/21/87	55			none	none
27	3/30/88 - 6/05/89	432	7/17/90 - 10/11/90	839	Jul 90 - Mar 91	853
28	2/04/94 - 7/05/95	516	none	none	none	none
29	3/25/97 - 9/29/98	553	none	none	none	none
30	6/30/99 - 1/02/01	552	1/14/00 - 9/21/01	198	Mar 01 - Nov 01	640
31	6/30/04 - 9/17/07	1,174	10/09/07 - 3/09/09	1196	Dec 07 - Jun 09	1279
	Average	517		477		596
	Median	418		286		609
	High	2482		1196		1279
	Low	34		34		74

Source:nBER, Federal Reserve, Thomson Reuters, GlobalMacro Partners, LLC

** US Federal Reserve Bank of New York Discount Rate is used from 11/07/17 to 11/18/71. Federal Funds Target Rate is used from 11/19/71 to present.*

***DJIA price peak is used for starting date. A bear market is defined as a 20% or more drop in price from peak to trough.*

****Calculated from last day of month.*

OBSERVATIONS

Since 1917, there have been 31 Federal Reserve "target" interest rate cycles comprised of 31 "tightening's" and 31 "easing's". Within every cycle, the Fed will raise or lower "target" interest rates to influence the direction of the economy and inflation. To slow economic growth and inflation, the Federal Reserve will increase the "target" interest rate which is also known as "tightening". Conversely, to stimulate economic growth and inflation, the Fed will lower the "target" interest rate which is also known as "easing".

The data demonstrates that the average Fed tightening lasted 516 calendar days or approximately 17 months in length. (Table 1) When a bear market did occur, it took on average 477 calendar days or approximately 15 months to begin after the first rate hike. Further, when a recession occurred, it took on average 569 calendar days or approximately 19 months to begin after the first rate hike.

CONCLUSION

The "predictability" of a Fed tightening leading to an economic recession and a bear market in stocks with 100% certainty is questionable at best. Historical analysis shows that not every tightening cycle resulted in a bear or a recession. In fact, only 15 out of the 31 tightening cycles led to a bear market in stocks, and only 15 out of the 31 tightening cycles led to a recession, suggesting less than a 50% historical occurrence. Investors should speak with their financial advisors when considering the effects of Fed tightening on their portfolios.

ABOUT DESTRA

Destra Capital connects financial advisors and their clients with innovative investment theories, in uniquely positioned products from experienced asset managers. At Destra, we take the long view, setting our goal to rise above fleeting market statistics toward the opportunity for long-term returns.

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Market Memos from Destra are designed to provide information on a wide range of general investing and financial planning topics. Your financial professional can help you decide about investments that are suited to your goals.

ABOUT GLOBALMACRO

GlobalMacro Partners, LLC provides global research and consulting services to institutions and financial advisors on macro-economic, asset class and asset allocation analysis and strategy. We deliver valuable fundamental research on over 50 macro-economic indicators from within 70 countries, and more than 100 of the most important asset classes comprising the world's equity, debt and alternative investment markets.

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