Criteria Investment Partners

Applied Insights

Annual Review January 2016

Feature Insight

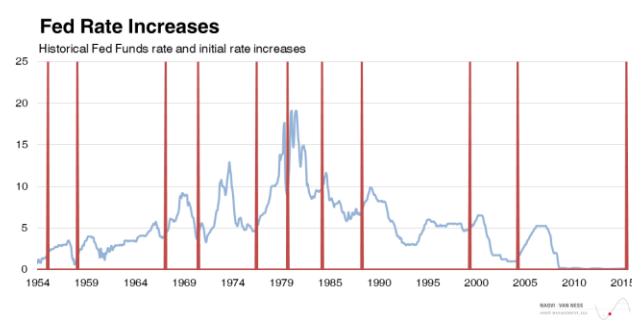
The Fed's Interest Rate Increase – A Perspective for Investors

The Federal Reserve has increased short-term interest rates for the first time in many years. This is cited as one reason for the recent market decline as the period of "easy money' has apparently come to an end. Yet there is a brighter side to this story. After all, the "Fed" took such action because it is only now comfortable that the economic expansion, while slow, is intact – such that small interest rate increases should not materially impede the economy's progress.

Thus such initial rate increases are a reaction to "good news" about the economy. In addition, they usually occur well before persistent and more dramatic interest rate increases do importantly impact the economy and often lead to recessions. On this score, below is a table of the month of all initial interest rate increases in each economic cycle since 1950. To the right of that month is the month in which the stock market peaked (S&P 500) in that cycle. The lead time of the interest rate trough to the stock market peak is then shown (in months).

Initial Rate Increase	Stock Market Peak	Lead(months)
Aug-55	Aug-56	12
Sep-58	Jul-59	10
Nov-67	Dec-68	13
Apr-71	Jan-73	21
May-77	Feb-80	33
Aug-80	Nov-80	3
Mar-84	Aug-87	41
May-88	Jul-90	26
Aug-99	Mar-00	7
Aug-04	Nov-07	39
Dec-15	?	?
	Average	20
	Median	17

As can be seen, the interest rate bottom has always occurred before the stock market peak in each economic cycle. To be sure, a less accommodative stance does mean the bull market is becoming mature and investors need to be more vigilant. However, the history of this "indicator" suggests that the major stock market peak for this cycle is still ahead of us.



Note: In the one case of a very short lead time (1980) – the prime rate (for example) was increased 14 times for a total increase of 600 basis points over just a 3 month period!