Interest Rate Levels Do Not Portend A Bear Market In Stocks

Where Interest Rates Stood At The End Of Past Bull Markets

Day Bull Market Ended (S&P 500 Index)	Fed Funds Target Rate	10-Year T-Note
5/11/16 (Ongoing)	0.50%	1.74%
10/9/07	4.75%	4.65%
3/24/00	6.00%	6.19%
8/25/87	6.75%	8.72%
11/28/80	18.00%	12.72%
1/11/73	5.75%	6.43%

Source: Bespoke Investment Group, Bloomberg

View from the Observation Deck

1. Today's blog post is intended to provide a little historical perspective as to where two key benchmark interest rates stood prior to U.S. equities, as measured by the S&P 500 Index, succumbing to bear markets.
2. A bear market in stocks is defined as a decline of 20% or more in the price level of a benchmark index, such as the S&P 500 Index.
3. Brian Wesbury, Chief Economist at First Trust Advisors L.P., has noted through the years that bear markets tend to occur when the Federal Reserve becomes too tight with its monetary policy.
4. As indicated in the chart, the upper bound of the federal funds target rate is currently 0.50%, which reflects an accommodative monetary policy, not a tight one. Wesbury believes that even if the Fed raises rates a couple of times in 2016, it would simply make its policy less loose, not tight.
5. A March 22, 2012, article in Businessweek stated that data from Standard & Poor's revealed that, since 1953, U.S. stocks posted their best returns when the yield on the 10-Year Treasury Note (T-Note) rose to around 4.00%.
6. As of 5/11/16, the 10-Year T-Note yielded just 1.74%, or 226 basis points below that 4.00% mark.
7. While the current bull market in stocks (3/9/09-Present), as measured by the S&P 500 Index, stands as the second-longest in history at 2,621 days, it still has a long way to go to catch the longest bull market totaling 4,494 days (12/4/87-3/24/00), according to data from Bespoke Investment Group.
8. Bloomberg's 2016 and 2017 earnings growth rate estimates for the S&P 500 Index were 8.77% and 13.66%, respectively, as of 5/12/16.