This Data Does Not Portend A Bear Market In Stocks

Where Interest Rates/Yields Stood At The End Of Past Bull Markets

Day Bull Market Ended (S&P 500 Index)	Fed Funds Target Rate	10-Year T-Note	CPI Headline Rate *(Y-O-Y NSA)*
10/30/19 (Ongoing)	1.75%	1.77%	1.7%
10/9/07	4.75%	4.65%	3.5%
3/24/00	6.00%	6.19%	3.8%
8/25/87	6.75%	8.72%	4.3%
11/28/80	18.00%	12.72%	12.6%
1/11/73	5.75%	6.43%	3.6%

Source: Bespoke Investment Group, Bloomberg. Consumer Price Index (CPI) as of 9/30/19.

View from the Observation Deck

1. Today's blog post is intended to provide some historical perspective as to where three key benchmark interest rates/yields 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, from its recent peak.
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 ("Fed") becomes too tight with its monetary policy.
4. Three consecutive rate cuts have brought the federal funds target rate (upper bound) down to 1.75%. It currently stands well below its 30-year average of 2.98%, according to Bloomberg. The Fed is not tight by historical standards.
5. Historically, stocks have performed well following three successive interest rate cuts (1975, 1996 and 1998). Data from LPL Financial indicates that the S&P 500 Index has risen an average of 10% six months after said rate cuts and 20% a year out, according to MarketWatch.
6. A 3/22/12 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%.
7. As of 10/30/19, the 10-year Treasury-note (T-note) yielded a paltry 1.77%, or 223 basis points below that 4.00% mark. The absence of any significant inflationary pressure is one of the reasons why bond yields are so low.
8. The 2020 and 2021 consensus earnings growth rate estimates for the S&P 500 Index were 9.52% and 10.18%, respectively, as of 10/25/19, according to Bloomberg. Those estimates do not portend a bear market or a recession, in our opinion.

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