

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)
8/30/19 (Ongoing)	2.25%	1.50%	1.8%
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 7/31/19.

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. As indicated in the chart, the upper bound of the federal funds target rate is currently 2.25%. That target rate is actually down from 2.50% on 7/30/19, and stands well below its 30-year average of 3.02%, according to Bloomberg. The Fed is not tight by historical standards.
5. 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%.
6. As of 8/30/19, the 10-year Treasury-note (T-note) yielded a paltry 1.50%, or 250 basis points below that 4.00% mark.
7. The escalation in the trade conflict between the U.S. and China has had a major impact on the Treasury yield curve, which inverted (spread between the 2- and 10-year T-notes) in August, and the performance of U.S. and global equities.
8. Having said that, as of 8/30/19, the 2020 and 2021 consensus earnings growth estimates for the S&P 500 Index were 10.27% and 10.10%, respectively, according to Bloomberg. Those estimates do not portend a bear market or a recession, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment. Past performance is not indicative of future results and there can be no assurance that any of the projections cited will occur. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks (currently 505) used to measure large-cap U.S. stock market performance. The CPI (Consumer Price Index) measures the prices paid for a market basket of consumer goods and services.

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