CAPITAL VIEW INVESTMENT GROUP

Advisors with D.A. Davidson & Co. member SIPC

Quarterly Newsletter

D|A|DAVIDSON

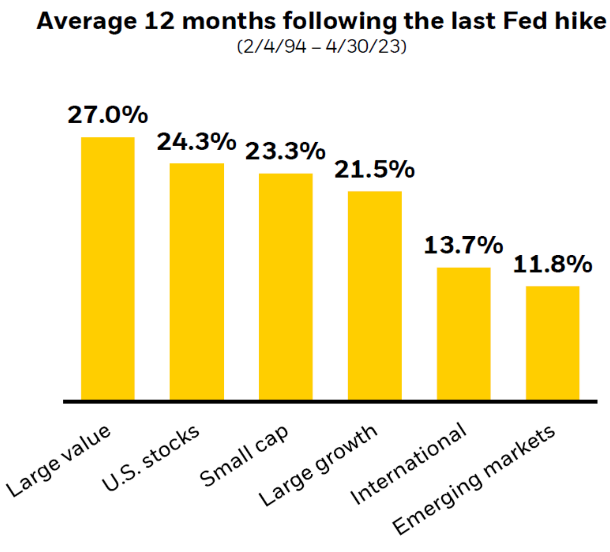
What will the market do when the Fed is done raising interest rates?

Happy New Year to each of you! We hope that you had a safe and joyous holiday season!

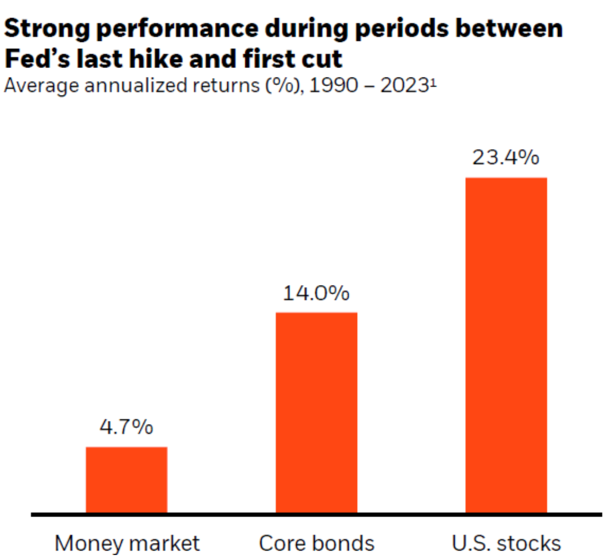
After a tumultuous 2022 where there seemed to be no place to hide with both stocks and bonds getting punished by the Federal Reserve (the Fed) aggressively raising interest rates to try and fight the war against inflation, 2023 proved to be a welcome relief with the "Magnificent Seven" tech stocks leading a rally that few, if any, saw coming – even as the rate hikes continued through the first half of the year.

The jury is still out on whether the Fed is truly done raising interest rates, or if they have simply paused and may still increase interest rates again? It is very likely that they may not know yet either. Regardless of which outcome prevails, many analysts believe that we are at or near the end of these interest rate hikes.

As we begin a new year and consider what might be next for the market with this backdrop, we thought it might be prudent to consider what has historically happened when the Fed has stopped raising interest rates.



Source: BlackRock, "Student of the Market" May 2023.



Source: BlackRock, "Student of the Market" Nov 2023.

A bump to stocks?

This first chart highlights the historical average return of stocks in various sub-asset classes one year after the last interest rate hike was completed by the Fed.

You can see that while all classes of stocks have historically benefitted during this time frame, U.S. stocks, and especially Large Cap Value stocks, have been the biggest winners.

This thought also coincides with the message in our last quarterly newsletter where we encouraged clients to consider their inventory of dividend paying stocks. More often than not, those dividend paying stocks fall into the "Large Value" category of stocks.

Bonds too?

This second chart looks specifically at the window between the last rate hike and the first rate cut and what the annualized returns have been for the three different asset classes shown.

While the time frames of the data between the first and second chart are off by about four years, the average annualized returns of U.S. stocks are very similar. We also see that core bonds have historically yielded a solid return during this window.

Lastly, we recognize that money market funds and CD's have been more attractive in the last 12 months than they have been in many years due to these rate hikes, but it may be wise to consider reallocating some of these assets back into stocks and bonds in the coming months.

If you would like to review your portfolio or financial plan, please don't hesitate to reach out to us at any time.

Best Regards, Mark, Brad T., Drew, Brad H., Renee & Erin

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