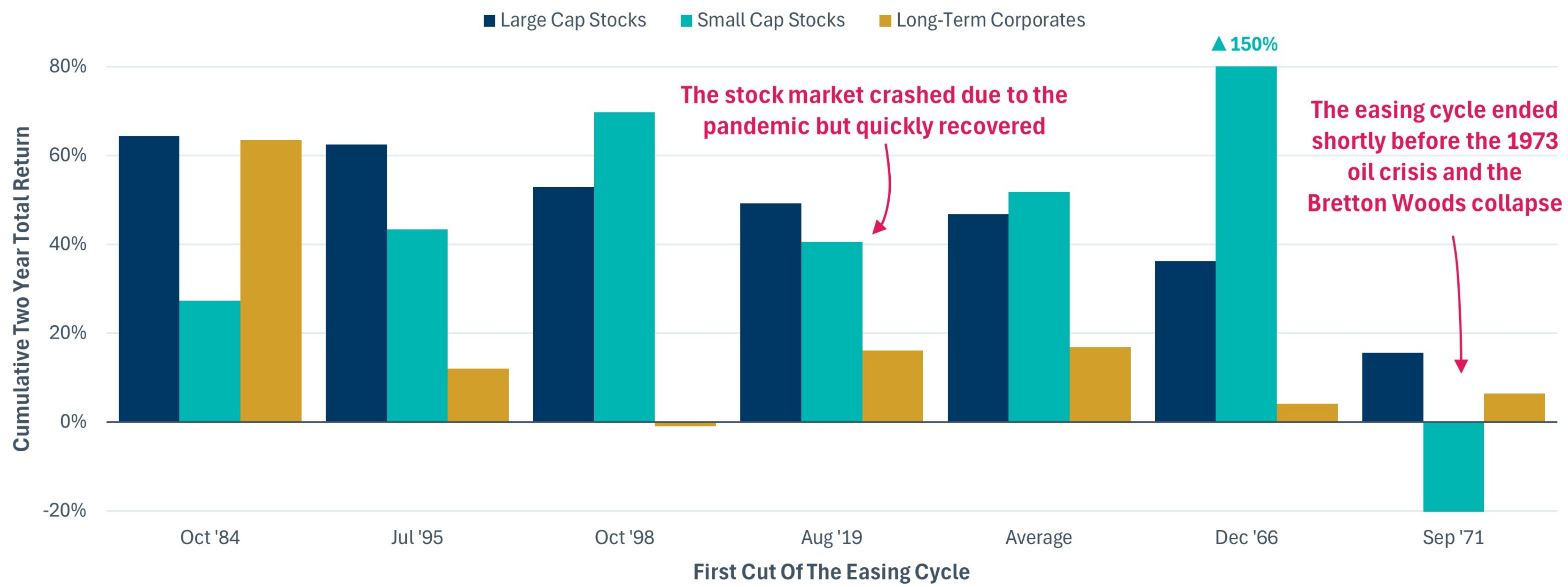
Chart of the Week

Payden&Rygel

Melt Up

Total Return Of Various Asset Classes* In Fed Easing Cycles Without Recessions

For The Week Ending 10/04/2024



Sources: SBBI, Morningstar Direct

**Ibbotson SBBI Large Cap Stocks, Small Cap Stocks, and Long-Term Corporate Indices; Total return assumes dividend reinvestment*

After hitting record highs, the equity market wobbled this week on geopolitical concerns. The economic data, however, continue to point toward a "soft landing," with inflation moderating and the economy gaining new jobs (+254k) at pace fast enough to keep downward pressure on the unemployment rate. So, we asked ourselves, "What will happen to risk assets if the Fed continues to cut rates and we avoid a recession?" We look past the headlines and use history as a guide to answer this question. In the past 16 cutting cycles since 1954, we have seen ten easing cycles coinciding with a recession, as the Fed often reduces rates to support a waning economy. However, there have been periods where the Fed lowered rates without a recession. In these easing cycles, stocks dramatically outperform bonds on average, and small-cap stocks have slightly higher returns than large-cap stocks, albeit with significantly more volatility. If the Fed keeps cutting without a recession, markets could "melt up" from here instead of melting down. Risk on?