Interest Rates

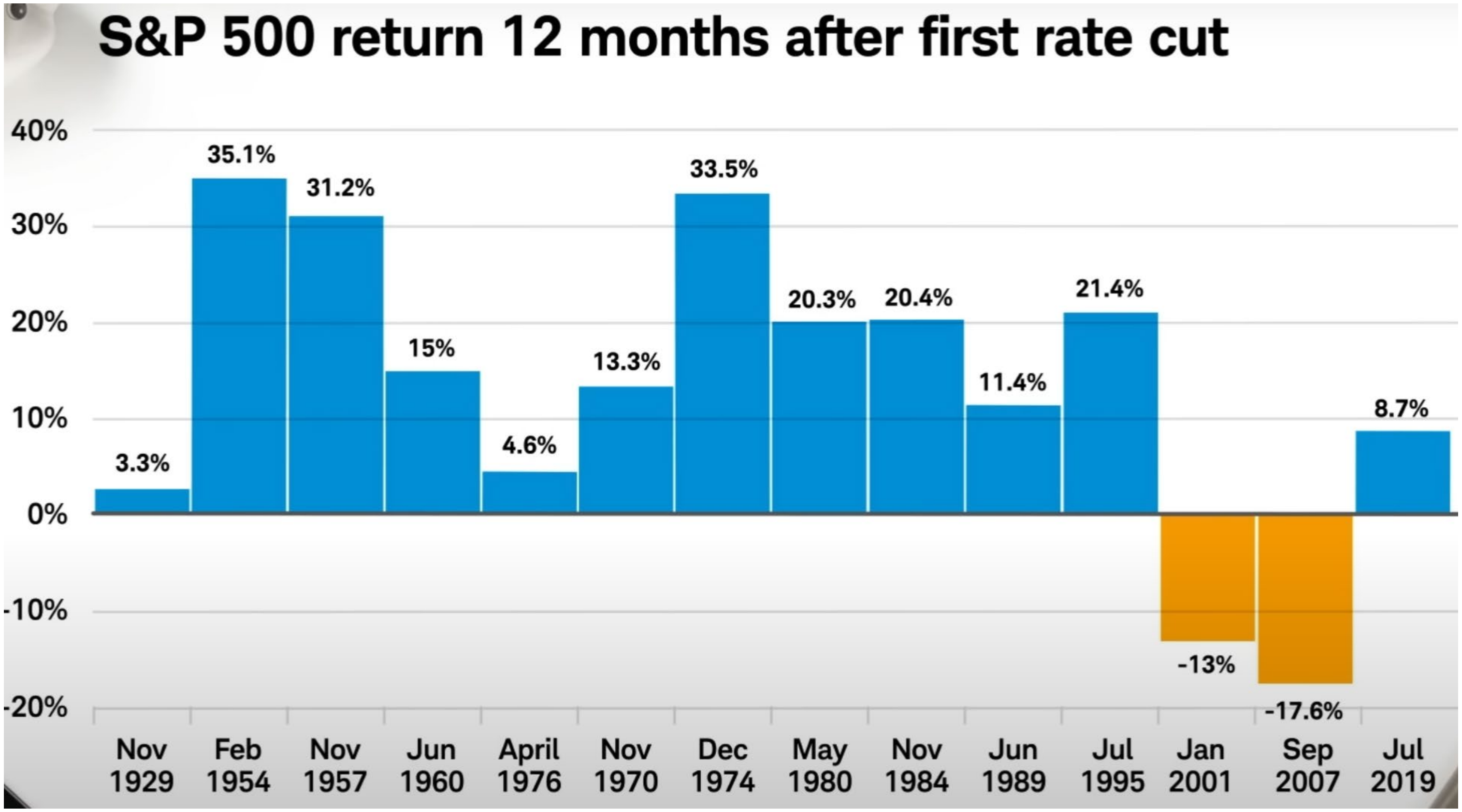
The big news is The Feds first cut in US interest rates in 4 years and US stock markets, the Dow Jones, and S&P 500 both finished trading on record highs as a result. The half-point move signals that The Fed is acting aggressively to keep the U.S. economy from stalling. Rates had been at a 2 decade high trying to cool inflation which is now near the 2020 figure and appears under control. This is good news for borrowers. Having previously cut their rates, the UK kept theirs the same.

There's certainly talk about whether this is timely or a little late to fend off a recession, but in general the move has been well received.

Stocks can be more attractive for several reasons. Companies can borrow at lower rates and reinvest in their companies to make them more attractive propositions over the long term. Investors find stocks more attractive compared to fixed interest products as their rates have reduced and so more money pours in.

What does history tell us about US rate cuts and about the effects on markets?

On average equities do well, over the short and medium term, but returns are quite dependant on whether there is a recession. If a recession doesn't happen (which is the consensus for this cycle) markets rally aggressively. If a recession does occur, performance is more mixed.



This can be evidenced in the table showing effects with nearly 100 years of data.

What about bonds?

As interest rates go down, older bonds with higher interest rates become more valuable and so have a higher price on the secondhand market. This could see bond prices increasing.

A multi-asset portfolio could therefore have the dual benefit of increasing stock markets and bond prices.

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