



Market Watch

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Expectations of a Federal Reserve pivot have been building since late December with the 2-year Treasury yield falling below the Fed funds rate. Whether or not there is a recession in the coming quarters, our research shows that the period between an inversion of the 2-year Treasury yield with the overnight rate and the first Fed rate cut tends to be relatively good for equity markets. As today's Hot Chart shows, the S&P 500 has recorded an average annualized gain of 22.4% over 202 days – the 2000-2001 inversion was the only episode to show a loss for the S&P 500 (-11.8%). The reason why the stock market tends to perform well in the run-up to the Fed's first rate cut is that investors generally embrace a soft landing scenario. Things get more complicated for equity markets once the Fed has pivoted and the collateral damage of previous cumulative tightening is fully reflected in the economy. In the current episode, it is important to note that the S&P 500 has already made a record annualized gain of 54.5% in just 50 days (since December 15, 2022). Although a recession could still be avoided, we remain cautious about increasing our equity exposure after the recent record surge. We still recommend underweighting equities in relative terms and holding excess cash positions (more details in our [Monthly Equity Monitor](#)).

S&P 500: An outsized market rebound

Annualized price return after 2-yr yield falls below Fed funds until first Fed rate cut (current as of Feb 3, 2023)

	Previous episodes						Average 202 days	Current episode 15/12/2022 - 50 days
	23/2/1989 - 6/6/1989	24/5/1995 - 6/7/1995	2/1/1998 - 29/9/1998	12/6/2000 - 3/1/2001	28/6/2006 - 18/9/2007	6/3/2019 - 01/8/2019		
	103 days	43 days	270 days	205 days	447 days	148 days		
Total	52.7	48.4	10.5	-11.8	17.7	17.0	22.4	54.5
Energy	17.3	-13.9	0.8	4.1	32.0	-14.6	4.3	11.8
Materials	21.7	66.5	-9.7	2.7	27.2	14.6	20.5	48.1
Industrials	57.6	52.2	-5.9	14.4	17.9	5.9	23.7	40.3
Health care	78.8	62.1	38.6	29.1	15.3	2.9	37.8	-21.3
Financials	66.4	24.5	-8.7	36.3	8.0	14.3	23.4	77.4
Consumer discretionary	42.8	65.4	16.3	-3.0	12.4	21.4	25.9	114.9
Consumer staples	92.2	44.8	-6.0	36.8	13.1	24.1	34.2	-13.4
Utilities	39.8	34.8	11.3	30.3	21.2	14.8	25.4	-29.0
Banks	66.4	29.5	-12.9	25.7	1.2	7.8	19.6	148.2
Communication services	89.6	91.4	28.9	-39.1	27.9	20.0	36.4	277.5
Real estate	50.8	25.0	-27.5	15.4	12.6	20.5	16.1	61.9
IT	0.3	89.9	45.5	-53.8	25.1	38.9	24.3	100.1
Insurance	63.3	3.1	-6.3	46.2	11.5	29.0	24.5	12.2
Metals and mining	5.4	105.1	-12.7	-1.0	33.0	-2.9	21.1	233.8

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