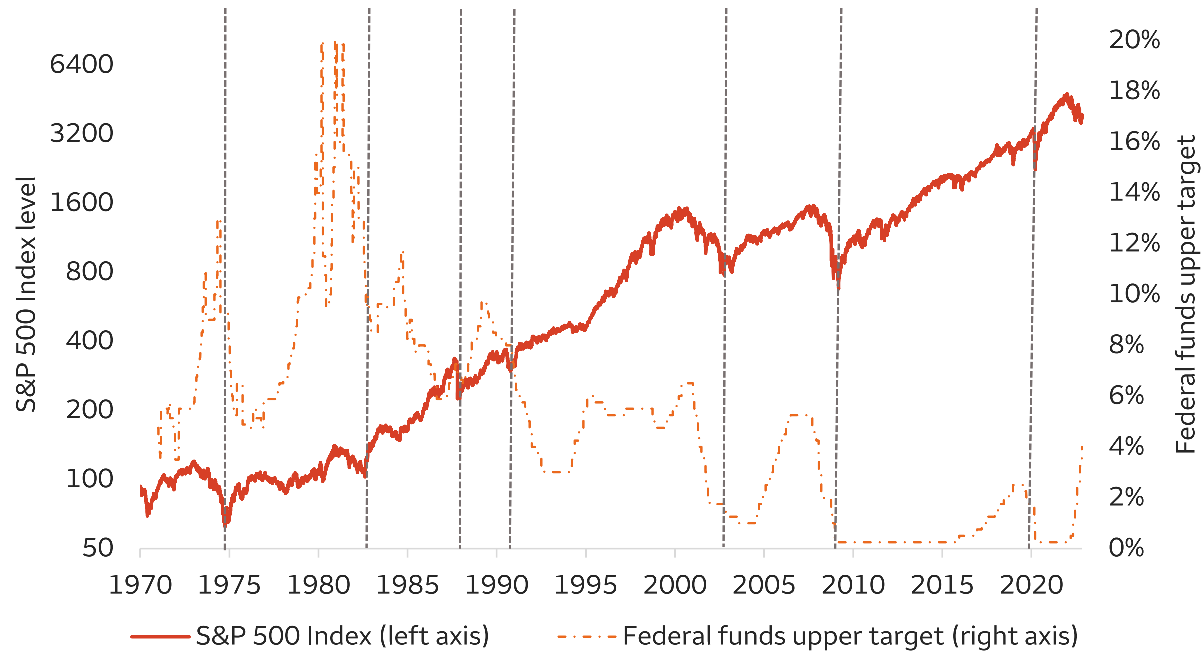
WELLS FARGO Investment Institute

Chart of the Week

Weekly market analysis on key market indexes **November 22, 2022**

Markets may not pivot until the Fed stops hiking rates



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data: January 1, 1970 – November 3, 2022. Vertical lines indicate major market bottoms. Left axis in log scale. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

In rate-hike cycles since 1970, stock markets have not bottomed until the last Fed rate hike

In 2022, the Federal Reserve (Fed) has aggressively tightened monetary policy (raising rates and shrinking its balance sheet), which has brought higher volatility and an equity bear market. The chart shows that the historical relationship between Fed policy and the S&P 500 Index has been strong — in fact, no bear market has found its bottom prior to the last rate hike in a Fed tightening cycle.

The latest Fed rate increase of 75 basis points (100 basis points equal one percent) has moved the federal funds rate to 3.75% – 4.00%. With inflation still well above the committee's target, our view is that the Fed will raise the federal funds rate by another 50 to 75 basis points in December, followed by one or two smaller increases early next year. By then, we believe the U.S. economy may be in recession, and we expect the Fed to be likely to pause further tightening and begin to consider plans to reduce rates later in the year.

What it may mean for investors

With the Fed tightening monetary policy and our view of a recession looming, we have been defensively positioned for much of 2022. This includes favoring U.S. equities over international equities, and higher-quality large- and mid-cap equities over small-cap equities. We believe this guidance remains relevant until the Fed signals a change of course, and interest rates stabilize or peak as we expect.

Chris Haverland, CFA, *Global Equity Strategist* *Investment Strategy Report* (November 14, 2022)

Risk Considerations

Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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