

Understanding Interest Rates, stock market bubbles and Recessions

Fed Rate Hikes 1999-2000: The Dot-Com Boom

FOMC Meeting Date	Change (bps)	Federal Funds Rate
May 16, 2000	+50	6.50%
March 21, 2000	+25	6.00%
Feb. 2, 2000	+25	5.75%
Nov. 16, 1999	+25	5.50%
Aug. 24, 1999	+25	5.25%
June 30, 1999	+25	5.00%

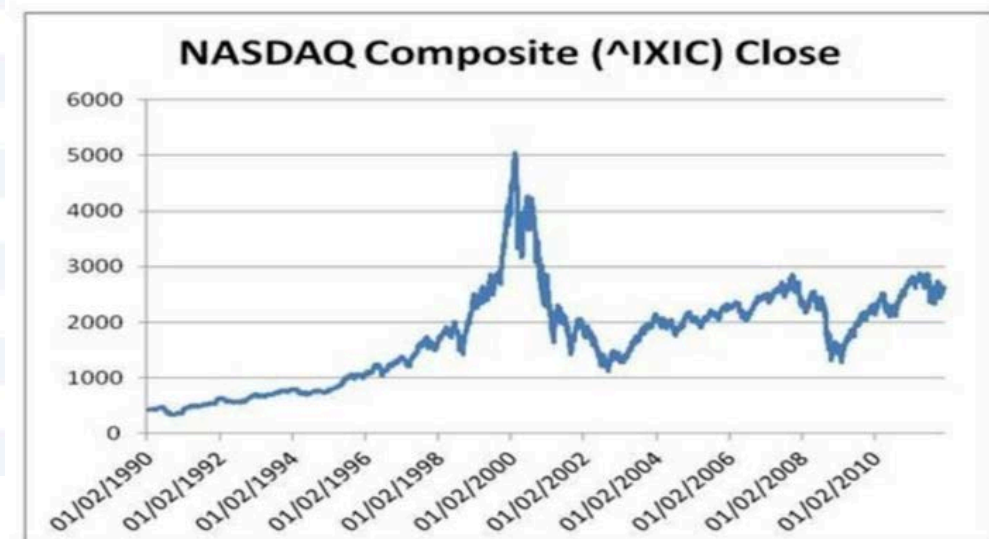
Central banks raising interest rate takes money out of the economy and popped the stock market bubble in March 2000 which caused a recession and an eventual lowering of interest rates again to reflate the system by injecting new money into the financial system

2001 Fed Rate Cuts: The Dot-Com Bust and 9/11

FOMC Meeting Date	Change (bps)	Federal Funds Rate
Dec. 11, 2001	-25	1.75%
Nov. 6, 2001	-50	2.00%
Oct. 2, 2001	-50	2.50%
Sept. 17, 2001	-50	3.00%
Aug. 21, 2001	-25	3.50%
June 27, 2001	-25	3.75%
May 15, 2001	-50	4.00%
April 18, 2001	-50	4.50%
March 20, 2001	-50	5.00%
Jan. 31, 2001	-50	5.50%
Jan. 3, 2001	-50	6.00%

The Dotcom Bubble and Bust of 1995-2002

History lessons



Fed Rate Cuts 2002-2003: Flagging Recovery, Low Inflation

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
June 25, 2003	-25	1.00%
November 6, 2002	-50	1%

The lowering of interest rates to record lows of 1% injected new money into the system and inflated a housing and stock market bubble again from 2002-2007.

Fed Rate Hikes 2005-2006: The Housing Market Boom

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Jun. 29, 2006	+25	5.25%
May. 10, 2006	+25	5.00%
Mar. 28, 2006	+25	4.75%
Jan. 31, 2006	+25	4.50%
Dec. 13, 2005	+25	4.25%
Nov. 1, 2005	+25	4.00%
Sept. 20, 2005	+25	3.75%
Aug. 9, 2005	+25	3.50%
June 30, 2005	+25	3.25%
May 3, 2005	+25	3.00%
March 22, 2005	+25	2.75%
Feb. 2, 2005	+25	2.50%
Dec. 14, 2004	+25	2.25%
Nov. 10, 2004	+25	2.00%
Sept. 21, 2004	+25	1.75%
Aug. 10, 2004	+25	1.50%

The raising of interest rates once again took money out of the economy causing a recession to start with their first rate cut in September 2007. The stock market peaked around the same time as the first rate cuts and continued imploding all through the 2007/2008 interest rate cuts.

Fed Rate Cuts 2007-2008: The Housing Market Crash

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Apr. 30, 2008	-25	2.00%
Mar. 18, 2008	-75	2.25%
Jan. 30, 2008	-50	3.00%
Jan. 22, 2008	-75	3.50%
Dec. 11, 2007	-25	4.25%
Oct. 31, 2007	-25	4.50%
Sept. 18, 2007	-50	4.75%

The lowering of interest rates never stopped the 2000 or the 2007/2008 housing/stock market bubbles from imploding. The central banks raise rates to high at first which causes a contraction of the money supply and they cut interest rates to late to stop the bubbles from imploding.

Chart 2 (SPX for 2002-2009): Banking/Financial Collapse

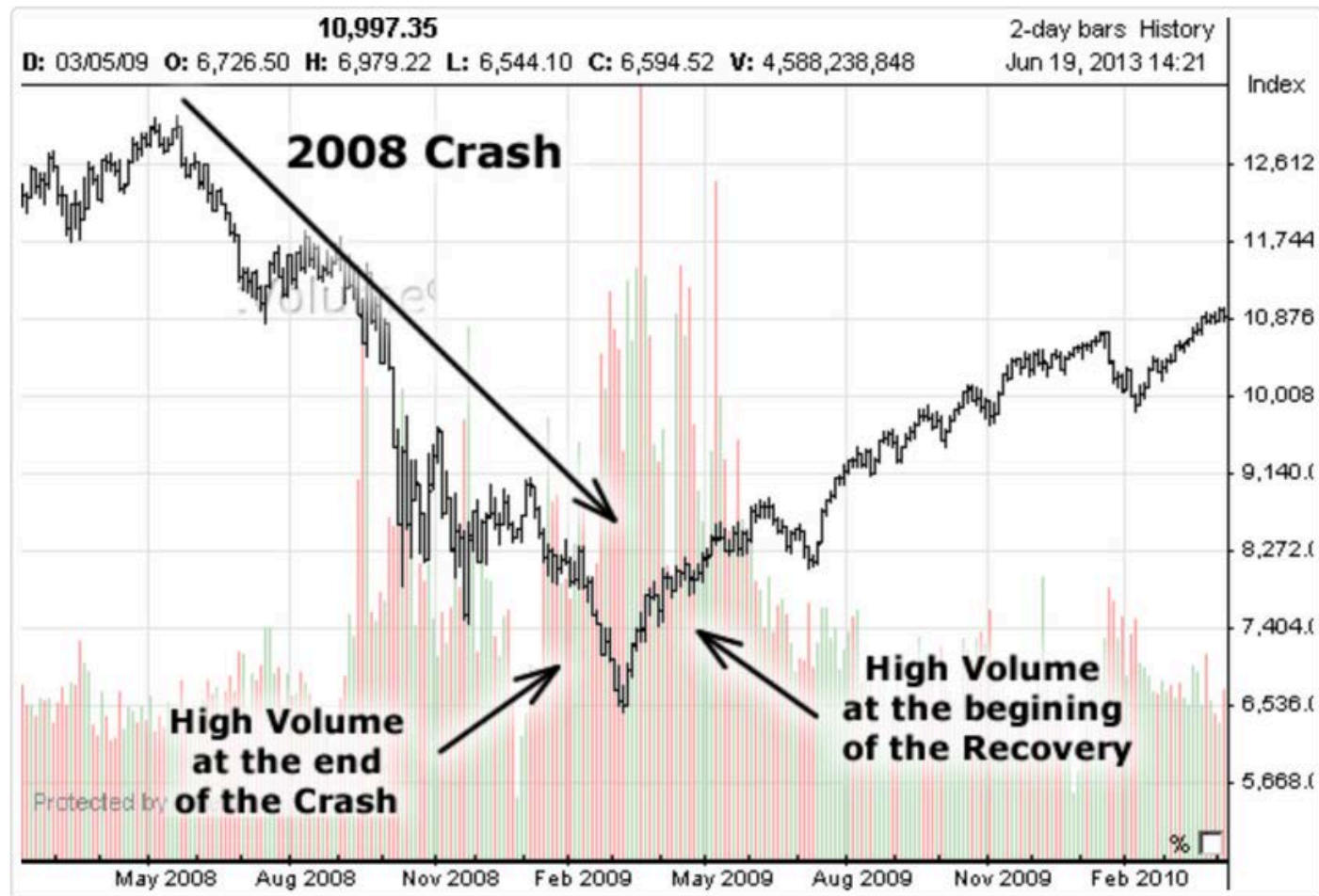


2008 Fed Rate Cuts: The Great Recession

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Dec. 16, 2008	-100	0% to 0.25%
Oct. 29, 2008	-50	1.00%
Oct. 8, 2008	-50	1.50%

Just like the 2000 crash, the crash of 2008 setup the buying opportunity of a life time for contrarian investors who saw great assets being sold for a discount because of temporary fear. The 2% logical investor who wanted to get rich rushed in to buy qualities assets being sold for on sale for massive discounts.

The Crash of 2008



The lowering of interest rates by pumping the system full of newly printed money once again started another stock market boom which lasted for many years until they started raising interest rates again. In September 2019 they started cutting interest rates and in March 2020 the COVID stock market crash caused another massive buying opportunity

Fed Rate Hikes 2015-2018: Returning to Normalcy

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
December 20, 2018	+25	2.25% to 2.50%
Sept. 27, 2018	+25	2.0% to 2.25%
Jun. 14, 2018	+25	1.75% to 2.0%
March 22, 2018	+25	1.50% to 1.75%
Dec. 14, 2017	+25	1.25% to 1.50%
June 15, 2017	+25	1.00% to 1.25%
March 16, 2017	+25	0.75% to 1.00%
Dec. 15, 2016	+25	0.5% to 0.75%
Dec. 17, 2015	+25	0.25% to 0.50%

2019 Fed Rate Cuts: Mid-Cycle Adjustment

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
October 31, 2019	-25	1.50% to 1.75%
Sept. 19, 2019	-25	1.75% to 2.0%
Aug. 1, 2019	-25	2.0% to 2.25%

2020 Fed Rate Cuts: Coping with Covid-19

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
March 16, 2020	-100	0% to 0.25%
March 3, 2020	-50	1.0% to 1.25%

Historically looking at these charts and graphs, the first interest rate cuts appear to signal that recessions/market crashes could be on the horizon and for those of us wanting to get wealthy, is an unbelievable buying opportunity if your prepared.

Stocks Emerge From Covid Crash With Historic 12-Month Run

Performance of major U.S. stock market indices since January 2020 (indexed to closing prices on March 23, 2021)

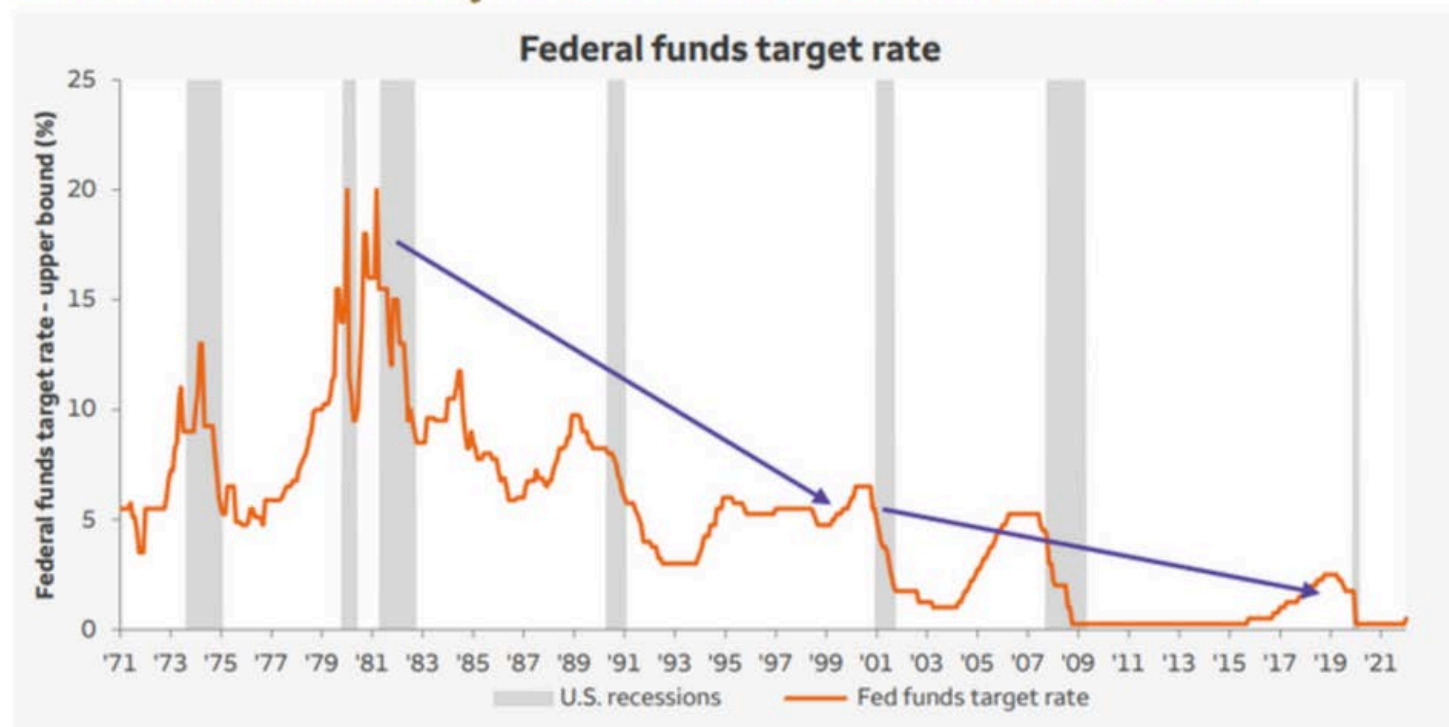


Fed Rate Hikes 2022-2023: Taming Inflation

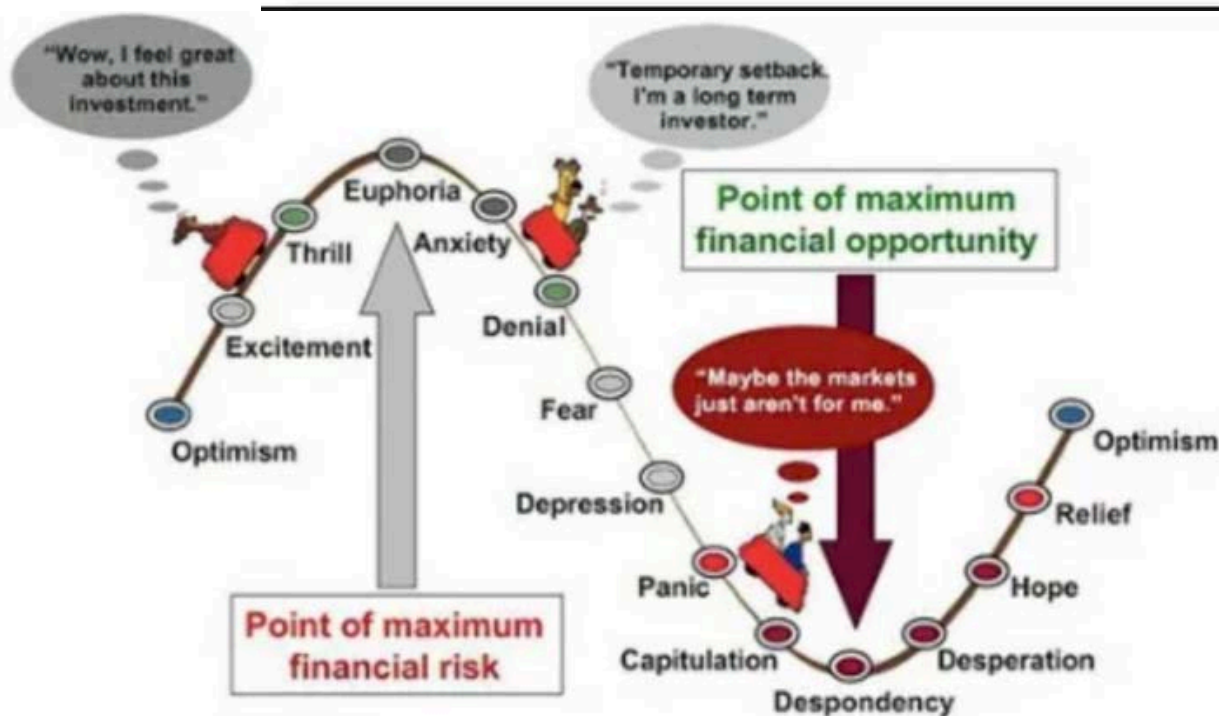
FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
July 26, 2023	+25	5.25% to 5.50%
May 3, 2023	+25	5.00% to 5.25%
March 22, 2023	+25	4.75% to 5.00%
Feb 1, 2023	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Is the next crash/recession on it's way ? History doesn't repeat but it often rhymes and this will be a great opportunity to once again buy quality assets on sale at rock bottom prices

The Fed's tendency to overshoot on interest rates



Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from March 1, 1971 to March 31, 2022. For illustrative purposes only. Fed = Federal Reserve.



To buy when others are despondently selling and to sell when others are euphorically buying takes the greatest courage, but provides the greatest profit

— **Jhon Templeton** —

