IT'S BEGINNING TO LOOK A LOT LIKE 2001

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It's been over 22 years since Alan Greenspan—who served as Fed chairman before Ben Bernanke, Janet Yellen and Jay Powell—turned from a monetary hawk to an intense dove, courtesy of a cratering stock market.

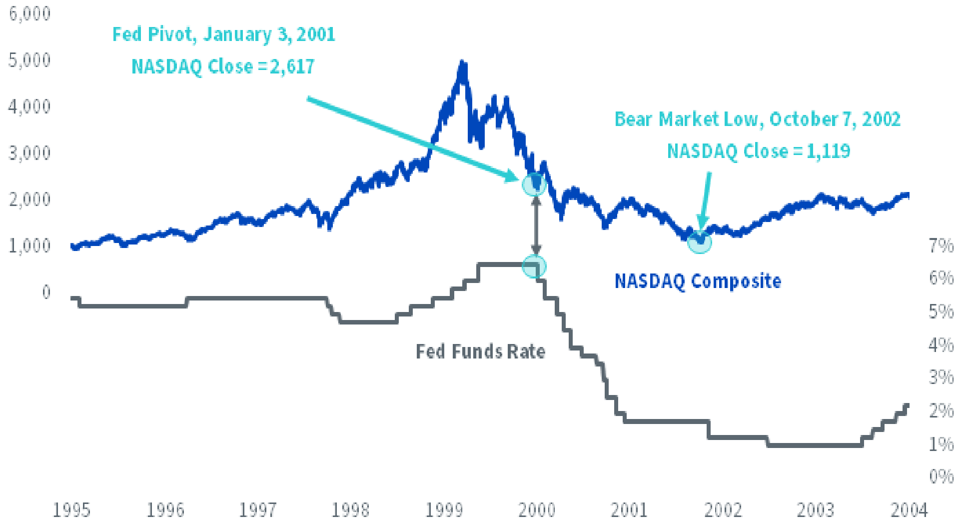
Let's call what Greenspan did in 2001 a "Fed pivot," to borrow from 2022's stock market parlance.

On January 3, 2001, the Fed chair cut the Federal Funds Rate from 6.5% to 6.0% in response to a declining stock market and weak economic activity. It would ultimately mark the first rate reduction in a series of 13 such actions spanning 2.5 years.

The NASDAQ closed at 2,617 on the first day of the pivot. Though the index had already halved from its high less than a year before, Greenspan's new interest rate tack was not enough to gin up the bulls.

The market only found its footing again in October 2002—when Greenspan had already chopped the Funds Rate to 1.75%, on the way to 1.00% the following year.

Figure 1: The Fed's 2001 Pivot



Source: Refinitiv, 12/31/95–12/31/04. Performance is historical and does not guarantee future results. You cannot invest directly in an index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would reduce returns.

Today, the stock market has been in rally mode since June 16, largely on the prospect of the Fed implementing a much-awaited pivot to a less hawkish policy. The futures market anticipates the Fed's most likely path will be a tightening of policy from the current 2.25%–2.50% range clear to the 3.50%–3.75% area, perhaps around the December meeting. The futures market then sees the Fed on pause to mid-2023, maybe beyond. The rate cuts would then begin sometime thereafter, in an "out" month.

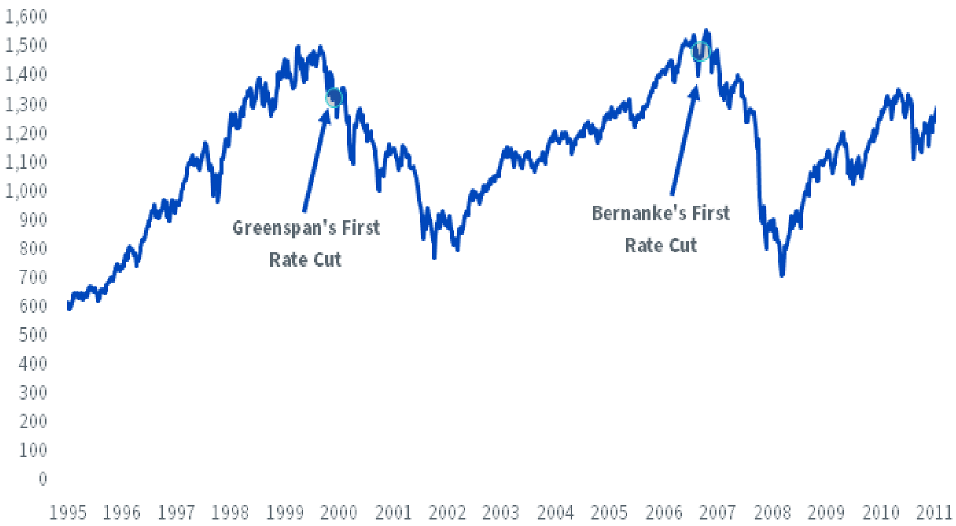
Figure 2: Fed Futures Probabilities

Fed Funds Rate Range	September 2022	November 2022	December 2022	February 2023	March 2023	May 2023	June 2023	July 2023
2.50-2.75%	--	--	--	--	--	--		0.2%
2.75-3.00%	55.5%	--	--	--	--	--	0.7%	2.0%
3.00-3.25%	44.5%	28.8%	4.1%	2.8%	2.1%	2.4%	6.7%	10.4%
3.25-3.50%	--	49.8%	31.8%	23.0%	18.1%	18.4%	23.2%	25.9%
3.50-3.75%	--	21.4%	45.8%	41.3%	36.9%	36.8%	34.9%	32.8%
3.75-4.00%	--	--	18.4%	27.1%	30.5%	30.2%	25.0%	21.3%
4.00-4.25%	--	--	--	5.8%	11.0%	10.8%	8.3%	6.7%
4.25-4.50%	--	--	--	--	1.4%	1.4%	1.0%	0.8%

Source: CME, as of 8/19/22.

That rate-cutting program, should it come to pass, could also take some time. It might go on for a year, or two, or three. Even so, that may not be enough for the stock market, if the 2001 and 2007 rate cut experiences are anything to go by. In figure 3, I circled the aforementioned "Greenspan pivot," along with Bernanke's September 2007 pivot. Both came nearly two years prior to the stock market's ultimate bottom.

Figure 3: S&P 500, 1995–2011



Source: Refinitiv, 12/31/1995–12/31/2011.

Whether it stays this way, I cannot be sure, but the market has a clear "risk on/risk off" dynamic: value was working at the beginning of the year, when the stock market was declining (figure 3). Notwithstanding the ugly action last week, it has been the opposite since June 16: growth is leading to the upside.

Index	12/31/21–6/16/22	6/16/22–8/26/22	YTD
S&P 500 Growth	-30.3%	14.0%	-20.5%
S&P 500	-22.5%	10.9%	-14.1%
S&P 500 Value	-13.9%	8.1%	-6.9%

Source: Refinitiv, as of 8/26/22.

For investors who are questioning the staying power of the rally, we have no shortage of value Funds. One that has gotten some considerable attention in 2022 is the WisdomTree U.S. High Dividend Fund (DHS), which has been a natural beneficiary of the market's newfound love of value stocks.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

Dovish : Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the "policy rate" of the U.S. Federal Reserve.

Nasdaq : A global electronic marketplace for buying and selling securities.

Bullish : a position that benefits when asset prices rise.

Risk-on/risk-off : refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.