Market Intel Exchange

Market data and insights from Lincoln and industry asset management partners

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Market Intel Exchange.

The S&P 500 has gained 7.2% on average in the 12-months following the start of U.S. rate cutting cycles.

However, there has been a stark difference in results based upon the state of the economy (see page 5 for more).

Did you know?

A special *thank you* to this quarter's featured contributors:

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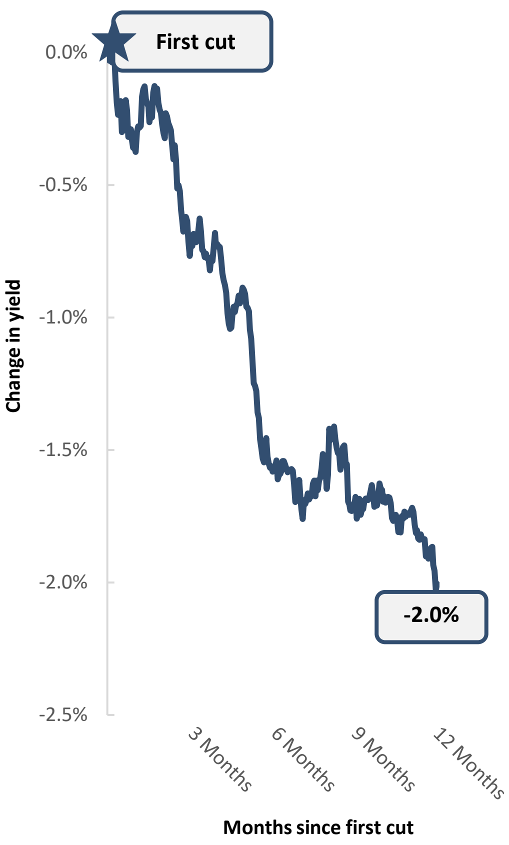
What could the start of the Fed rate cutting cycle mean for investors?

Cash yields fell quickly following the start of cutting cycles



Performance of the S&P 500 following the start of rate cutting cycles since 1974

First Rate Cut	Recession[1]? (N / Y)	3-months later	6-months later	12-months later	3-years later *(cumul.)*	5-years later *(cumul.)*
Jul 1974	Y	-25.2%	-18.1%	16.1%	33.1%	51.5%
May 1981	Y	-0.2%	-5.7%	-10.5%	40.4%	125.0%
Oct 1984	N	1.9%	11.2%	14.5%	116.3%	152.2%
Jun 1989	N	9.2%	9.2%	16.8%	40.4%	65.4%
Jul 1995	N	7.2%	14.1%	23.0%	122.3%	187.9%
Sep 1998	N	18.9%	25.8%	23.9%	3.0%	2.0%
Jan 2001	Y	-13.5%	-3.2%	-8.8%	-9.4%	5.7%
Sept 2007	Y	-1.0%	-8.9%	-20.0%	-18.4%	10.5%
Jul 2019	Y	1.3%	8.1%	9.9%	44.1%	95.8%
Sep 2024		-	-	-	-	-
Average		**-0.2%**	**3.6%**	**7.2%**	**41.3%**	**77.3%**
Average *(No Recession)*		9.3%	15.1%	19.6%	70.5%	101.9%
Average *(Recession)*		-7.7%	-5.6%	-2.7%	18.0%	57.7%

What is this chart showing?

This chart shows the average change in cash yields over the 12-months following the start of rate cutting cycles (left), as well as the average return of the S&P 500 following the start of cutting cycles (right).

Why is it important?

The Federal Reserve kicked off its highly anticipated rate cutting cycle with a 50bp reduction in September 2024.

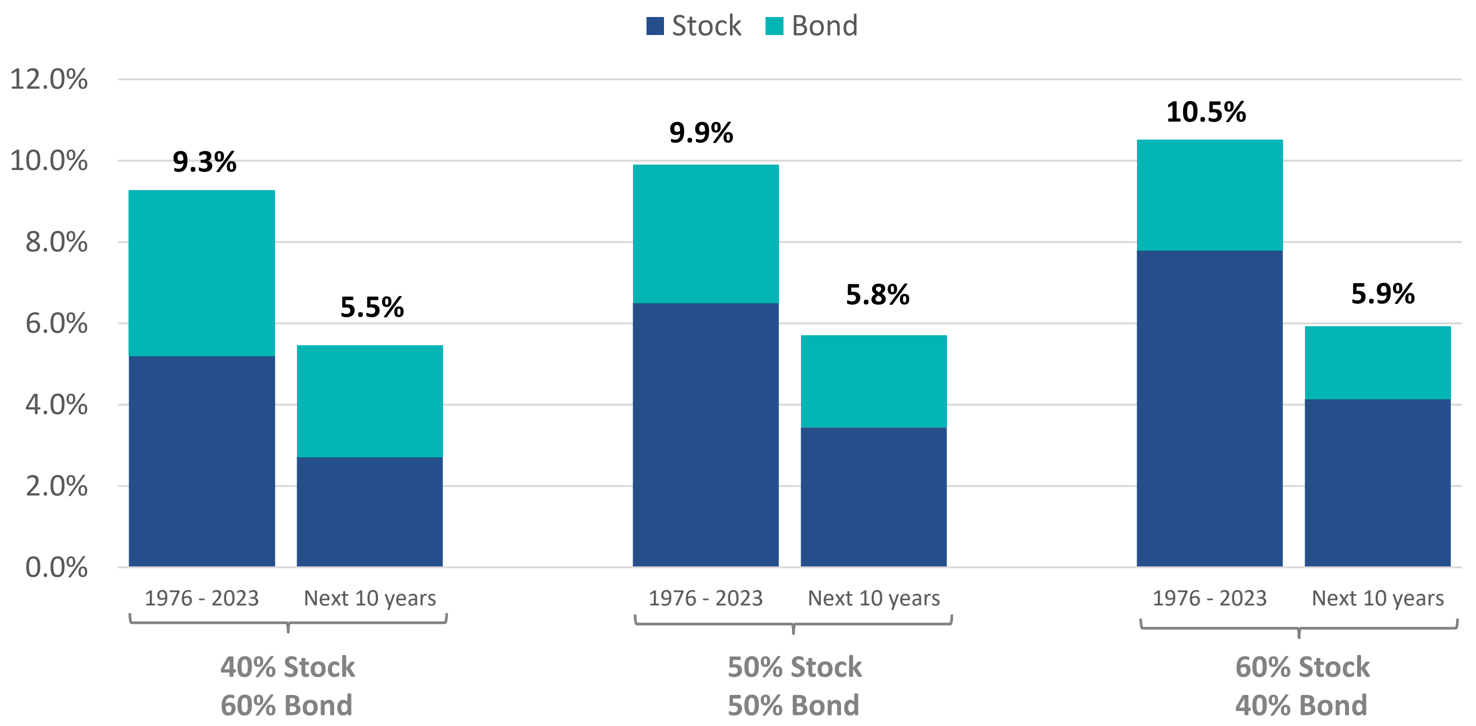
History shows cash yields decline rapidly following the start of cutting cycles, falling by 2% on average just twelve months later.

U.S. stocks have delivered a positive return of 7.2% one year after the initial cut, though depending on whether the economy avoids a recession or not within that year has led to starkly different results (+19.6% vs. -2.7%).

As of today, the economy shows no signs of an imminent recession, though this has the potential to change. However, as illustrated by longer-term returns, regardless of where the economy lands this cycle, patient investors should not be deterred from confidently staying the course.

Source: (Left) FactSet - average cash yield change during rate cutting cycles since 1974 represented by the 3-month U.S. Treasury Bill. (Right) Bloomberg, NBER, Morningstar. Includes cutting cycles in which the Federal Reserve lowered rates in multiple meetings without hiking. 1- Cycle is considered recessionary if the U.S. Economy was either in a recession when the first cut occurred or entered a recession within 12 months of the first cut according to the NBER. **Past performance does not guarantee or predict future performance**. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Balanced portfolio return expectations



Capital market expectations	U.S. stocks	U.S. bonds
J.P. Morgan Asset Management	8.19%	5.19%
Goldman Sachs Asset Management	6.80%	4.70%
BlackRock	6.56%	4.30%
State Street	6.00%	3.90%
Average	**6.89%**	**4.52%**

What is this chart showing?

This chart shows the average historical return of balanced portfolios compared to the projected 10-year future return of similarly weighted portfolios. Future returns are based on the average of capital market expectations from several of our asset management partners.

Why is it important?

Understanding what future returns may look like relative to the past can help inform investment decisions and provide a valuable input for planning purposes.

Stocks are represented by the S&P 500 Index. Bonds are represented by the Bloomberg U.S. Aggregate Bond Index.

You cannot invest directly in an index. All indices are unmanaged and do not include fees or expenses. Please see the back of this presentation for index definitions and disclosures. **Past performance is not indicative of future returns. This market forecast is based on the latest forward-looking expectations from select fund partners and is not intended as a recommendation to invest in any particular asset class or strategy or as a promise — or even estimate — of future performance.**

Source: Morningstar, S&P, Bloomberg. Data as of October 31, 2024. Portfolios 1976-2023 represent average calendar year weighted return of various mixes from 40%-60% S&P 500 TR to 60%-40% Barclays US Aggregate Index; Next 10 years = Average Equity and bond returns based on capital market expectations shown in the table. Core equity = US Equity, Core bonds = US aggregate bonds. **See Additional Information for more information.**

Additional information

Index descriptions

S&P 500 Index is a market-cap weighted index that measures the performance of 500 widely held large capitalization stocks in the U.S. equity market. It is regarded as the best gauge of the U.S. equity market.

Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. It is a subset of the Russell 3000.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that measures equity market performance in large and mid cap representation across 27 emerging market countries.

MSCI EAFE Index is a free float-adjusted equity index that captures large and mid cap representation across 21 developed market countries, excluding the U.S. and Canada.

MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization index that captures large and mid cap representation across 23 developed markets and 27 emerging market countries.

Bloomberg Commodity Total Return Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills.

Bloomberg Barclays Global High Yield Index is a multicurrency flagship measure of the global high yield debt market. The index represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The FTSE Nareit All Equity REITs Index is a free float-adjusted market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

The Bloomberg Barclays U.S. Treasury Bills 1–3 Month Index includes all publicly issued zero coupon U.S. Treasury bills that have a remaining maturity of less than three months and at least one month, are rated investment-grade, are U.S.-dollar denominated, nonconvertible, and have $300 million or more of outstanding face value.

University of Michigan (UoM) Inflation Expectations measures the percentage that consumers expect the price of goods and services to change during the next 12 months.

Capital market expectations

- BlackRock: https://www.blackrock.com/institutions/en-us/insights/charts/capital-market-assumptions, as of August 2024. 10-year return time period.
- J.P. Morgan Asset Management, 2025 Long Term Capital Market Assumptions: https://am.jpmorgan.com/us/en/asset-management/adv/insights/portfolio-insights/ltcma/.
- StateStreet: https://www.ssga.com/us/en/institutional/ic/insights/long-term-asset-class-forecasts-q3-2024, as of Q3 2024. 10+ year return time period.
- Goldman Sachs: Goldman Sachs: US Q3 2024 Multi-Asset Solutions (MAS) Team Strategic Long-Term Assumptions. 10-year return time period, as of September 30, 2024. https://visit.lfg.com/GSMAS

Economic and market indicators

- Consumer sentiment based on month-end data, starting in Jan. 1978 to October 2024. +/- 1 std. deviation of historical value range from 98.00% to 71.49%.
- Economic expansion (CQOQ Index) based on QOQ % change data of quarterly data, starting in June 1947 to September 2024. +/- 1 std. deviation of historical value range from 7.74% to – 1.34%.
- Inflation (CPI) based on YOY % change of monthly CPI seasonally adjusted data, starting in Jan. 1947 to September 2024. +/- 1 std. deviation of historical value range from 7.01% to 0.47%.
- Market volatility (VIX) based on average daily closing values for the month of the CBOE VIX index from Jan. 1990 to October 2024. +/- 1 std. deviation of historical value range from 24.48% to 11.26%.
- Unemployment based on month-end data, starting in Jan. 1948 to October 2024. +/- 1 std. deviation of historical value range from 7.40% to 3.98%.
- 10Y U.S. Treasury yield based on daily data, starting in Jan. 1962 to October 2024. +/- 1 std. deviation of historical value range from 8.81% to 2.89%.

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