The U.S. equity market & interest rates

Credent
WEALTH MANAGEMENT

The topic of higher U.S. interest rates amidst a tightening cycle from the Federal Reserve has been a dominant talking point in recent years and it's a topic that we have extensively covered in our research. Current monetary policy stands at a historically low accommodative stance and is surrounded by global central banks that have considered, and some have even implemented, negative interest rates. Considering the fact that no crystal ball exists in gauging how equity markets may behave when interest rates in the U.S. do start to materially rise, we turn to historical data in an effort to study periods of excessive upward swings in the 10 year U.S. yield while simultaneously observing market performance. The conclusion is one that favors increased equity market exposure in times of rising yields in the U.S.

The data below depicts the top 10 most drastic swings of interest rates, as depicted by the U.S. Treasury 10 Year Yield, over the past 25 years along with the performance of the Standard & Poor's (S&P) 500 Index during that same time frame. Without going into too much detail, we can conclude that, from a historical standpoint, a rise in interest rates has actually been a positive for the large cap U.S. equity market and has produced a counterintuitive mindset among market participants that rely on such data. The question, however, is whether or not this historical pattern will persist in the future as the Federal Reserve maintains its tightening cycle and eventually implements a strategy to decrease the size of its balance sheet. Given the current environment, and without accounting for potential geopolitical or election cycle risks, our outlook is that the pattern of stable equity market returns amidst a rising interest rate environment may likely persist. Our main conviction in such a statement is grounded in the broad improvements of the economy, especially as it relates to the labor market, as wells the current stage of the business cycle. Moreover, we're optimistic on the strength of broad corporate earnings and the strong consumer sentiment figures. Such data may be further amplified as wage growth normalizes to the upside.

Time Frame	10 Year Yield Change	% change in the 10 Year Yield	S&P 500 Total Return
September 1993 - December 1994	5.35% to 7.70%	45%	**3.62%**
December 1995 - March 1997	5.60% to 6.89%	24%	**26.19%**
September 1998 - December 1999	4.20% to 6.49%	46%	**46.79%**
September 2002 - June 2006	3.55% to 5.45%	43%	**66.61%**
December 2008 - March 2010	2.20% to 3.89%	73%	**33.26%**
July 2012 - December 2013	1.39% to 3.02%	117%	**30.00%**
January 2015 - June 2015	1.64% to 2.48%	52%	**6.38%**
July 2016 - March 2017	1.37% to 2.61%	91%	**14.34%**
September 2017 - February 2018	2.04% to 2.97%	41%	**11.00%**
April 2018 - November 2018	2.72% to 3.24%	20%	**9.95%**

Source: Credent Wealth Management. Bloomberg. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. The S&P 500 is an unmanaged index which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges; it does reflect the reinvestment of dividends. The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Stock investing involves risk including loss of principal.

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