



Cut Me Mick!

It was Round 14, and a devastating right uppercut followed Creed's relentless left jab; Rocky didn't see it coming and was knocked down yet again. As he rises, propped up by just the turnbuckle and corner rope, an amazed Creed cautiously closes in for final the onslaught, only to be caught off-guard by four crushing body-blows by the bludgeoned southpaw. The round comes to an end, and while sitting exhausted in his corner, the challenger mutters to his trainer, "Cut me Mick, I can't see."

Just as life imitates art, this past week witnessed a U.S. equity market knocked down for an eight-count, only to get propped up by an emergency rate cut and belief that a self-proclaimed socialist will not lead the Democratic ticket come November. Together with somewhat positive economic data, these events helped push the S&P to two of [its greatest single-day gains](#) in history. While [inflation](#) modestly surprised to the downside, [personal income](#) was somewhat higher, [consumer sentiment](#) beat expectations, the final read for [February PMI](#) was inline, non-manufacturing ISM eked to the upside, and [initial claims](#) printed modestly below expectations.

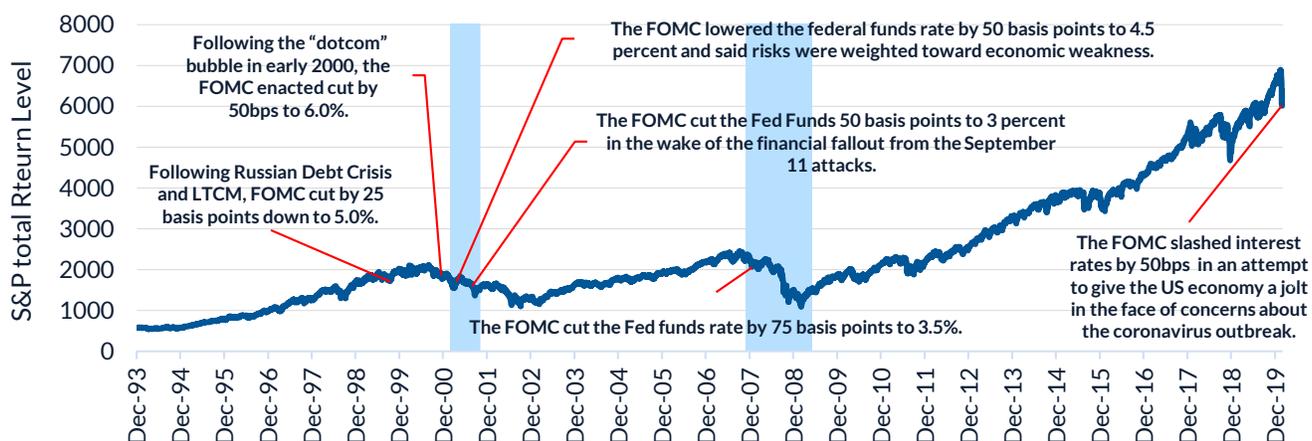
But like the 1976 Best Picture Winner, we fear that while the U.S. equity market (and economy) is trying to struggle back to its feet for one last round, it will ultimately fall short. During several conversations this week, we reminded clients of our January 31, 2020 note entitled, "[The Punch You Don't See Coming](#)," and the implication of black-swan events, like Coronavirus. As we pointed out, what makes Coronavirus different from other outbreaks, is that **most others have occurred during the middle of an economic expansion or closer to a trough, and not at the height of market valuations or end of an economic cycle.** And now, what is building up to be as ominous, is the idea that the **Federal Reserve has only took emergency steps to cut rates five other times in history, all during times a significant economic uncertainty, and four times during the 2001 and 2007 recessions.** Based on our research, following an emergency rate cut, the S&P gained about 3.5% six-months into the future, **but was down by on average, almost 10% one-year out.** Finally, we remind our readers that we have long held the notion that the Fed is using its ammunition prematurely, leaving little-to-no slack for times of real need. With another 50bps cut projected at the upcoming March 17-18 FOMC meeting, we feel another fear will become a reality. **We'd love to hear your thoughts!**

Previous Surprise Cuts | S&P Total Returns

Year	Date	Cut	Fed Funds	S&P Total Return		
				+6M	+1Y	
1998	10/15/98	-0.25%	5.00%	27.1%	20.6%	
2001	1/3/01	-0.50%	6.00%	-7.8%	-12.4%	
2001	4/18/01	-0.50%	4.50%	-13.1%	-7.9%	
2001	9/17/01	-0.50%	3.00%	13.1%	-14.6%	
2008	1/22/08	-0.75%	3.50%	-1.5%	-35.3%	
2020	3/2/20	-0.50%	1.25%	?	?	
				Average	3.5%	-9.9%
				Median	-1.5%	-12.4%

Source: FactSet and NEPCG

Emergency Rate Cuts Are Typically Not a Good Omen



Source: FactSet and NEPCG



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