DICKMEYER BOYCE
FINANCIAL MANAGEMENT, INC.

March 7, 2015

Market Return in Periods of Interest Rate Increases by the Federal Reserve

On March 6, 2015, the employment data for January was released. Employment increased 295,000 for the month, 55,000 higher than projected. The official unemployment rate declined from 5.7% to 5.4%. The under-employment and unemployment rate declined from 11.3% to 11.0%.

The domestic stock market reaction to this news was surprisingly negative, with major stock market indices down around 1.5%. The reaction appears to be that a strong economy will result in the Federal Reserve raising interest rates sooner rather than later. The market assumption is that would be bad news.

But, history indicates otherwise. Please see the chart below. Since 1957, when the S&P 500 Index was launched, there have been 14 periods where the Federal Reserve raised interest rates. The average annualized rate of return during these periods of time has been 13.16%.

Two out of the fourteen rising interest rate periods resulted in negative returns. One of the fourteen resulted in less than 5% annualized return. See the notes section of the chart below. All three of these periods of low or negative market return are explainable by extenuating circumstances that are not present today. High inflation is not an issue. Oil is abundant and cost is low. Time will tell, but I doubt there is any argument to the claim that the Federal Reserve raised rates too soon even if they started raising them tomorrow.

A Black Swan event is always possible and tends to be a negative factor for stock market results, but there is plenty of evidence that one should not fear periods of interest rate increases by the Federal Reserve.

Market Return in Periods of Interest Rate Increases by the Federal Reserve*
- Since 1957 when the S+P 500 was launched

Period	Duration (yrs)	Gain (%)	Annualized Gain (%)	Notes (during periods where return was low or negative)	Now
July '61 to Nov '66	5.33	47.5	7.56		High inflation is not an issue
Dec. '03 to July '07	3.58	46.9	11.33		Oil abundant and cost dropping
Jan '77 to May '80	3.42	12.2	3.43	High inflation leading to stagflation, Iran crisis	Rates are not being raised too soon
Feb '72 to July '74	2.42	-17.4	-7.61	Oil embargo, high inflation, recession	
Feb '83 to Aug '84	1.5	23.0	14.8		Black swan event always possible
Dec '93 to April '95	1.33	15.8	8.51		
May '58 to Nov '59	1.33	41.4	26		
June '99 to July '00	1.08	11.5	10.57		
July '67 to Aug '69	1.08	12.7	5.91		
March '88 to March '89	1	14.5	14.5		
Oct '86 to Sept '87	0.92	43.4	48.2		
July '80 to June '81	0.92	20.7	22.8		
June '85 to Dec '85	0.5	14.1	30.2		
March '71 to Aug '71	0.42	-5.2	-12	Recession ended late 1970, raised rates too soon	
Average	1.77	20.08	13.16		
Range	0.42 to 5.33	-17.4 to 47.5	-12 to 48.2		

*Data put together by Ben Carlson, portfolio manager for the endowment fund at the Van Andel Institute, Grand Rapids, MI with data from Ibbotson

Dickmeyer Boyce Financial Management, Inc.
March 7, 2015