

APPENDIX B

What Happens After a Few Rate Hikes? Usually, Good Things. S&P 500 Calendar Year Returns by the Number of Hikes in a Year

The market went from pricing in one rate hike in 2022 just weeks ago to now pricing in 3 rate hikes in 2022. Maybe the market knew the history and decided to skip right past 2 rate hikes and price in 3. Since 1925 there have been 22 calendar years with a rate hike and those years have averaged a return of +12.1%. Not quite as good as the +13.3% without any rate hikes but still pretty good.

But look what happens with 2 rate hikes... that has happened 6 times and the calendar year returns has averaged just +2.5%. Better to go for one more hike in that calendar year and hope you get the +15.6% average return the 5 years in history that saw 3 hikes experienced.

Interestingly the numbers don't look too bad until you get up to 6 rate hikes in a year, something that still isn't on the table for 2022, even with surging inflation.

Rate Hikes in a Calendar Year	Frequency	Average Calendar Year Return
0	55	13.3%
1	22	12.1%
2	6	2.5%
3	5	15.6%
4	4	24.5%
5	1	10.9%
6	1	1.3%
7	2	-4.2%
8	1	4.9%

Source: S&P 500 monthly total return index from 1/1/1925 - present.

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Fed discount rate used from 1/1/1925 - 12/31/1989.

Federal Funds Target Rate used from 1 / 1/1990 – present