What Happens to the Stock Market When the Fed Cuts Interest Rates?

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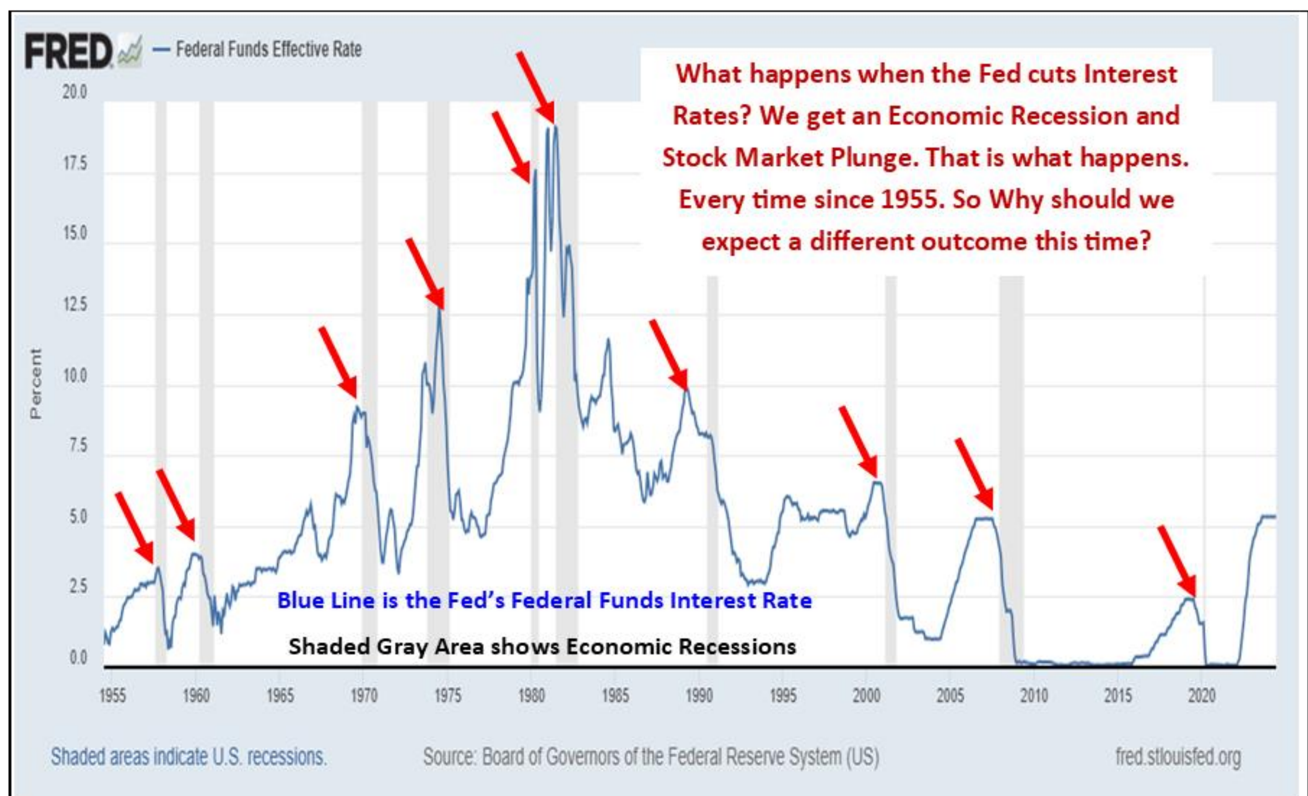
When the Federal Reserve starts cutting short-term interest rates, specifically the Federal Funds interest rate, watch out!

Every time they did this since 1955, an economic Recession and Stock Market Plunge occurred within months or sooner.

Why? Because their rising rate cycle leading up to the cuts nearly destroyed the economy.

Take a look at the next chart.

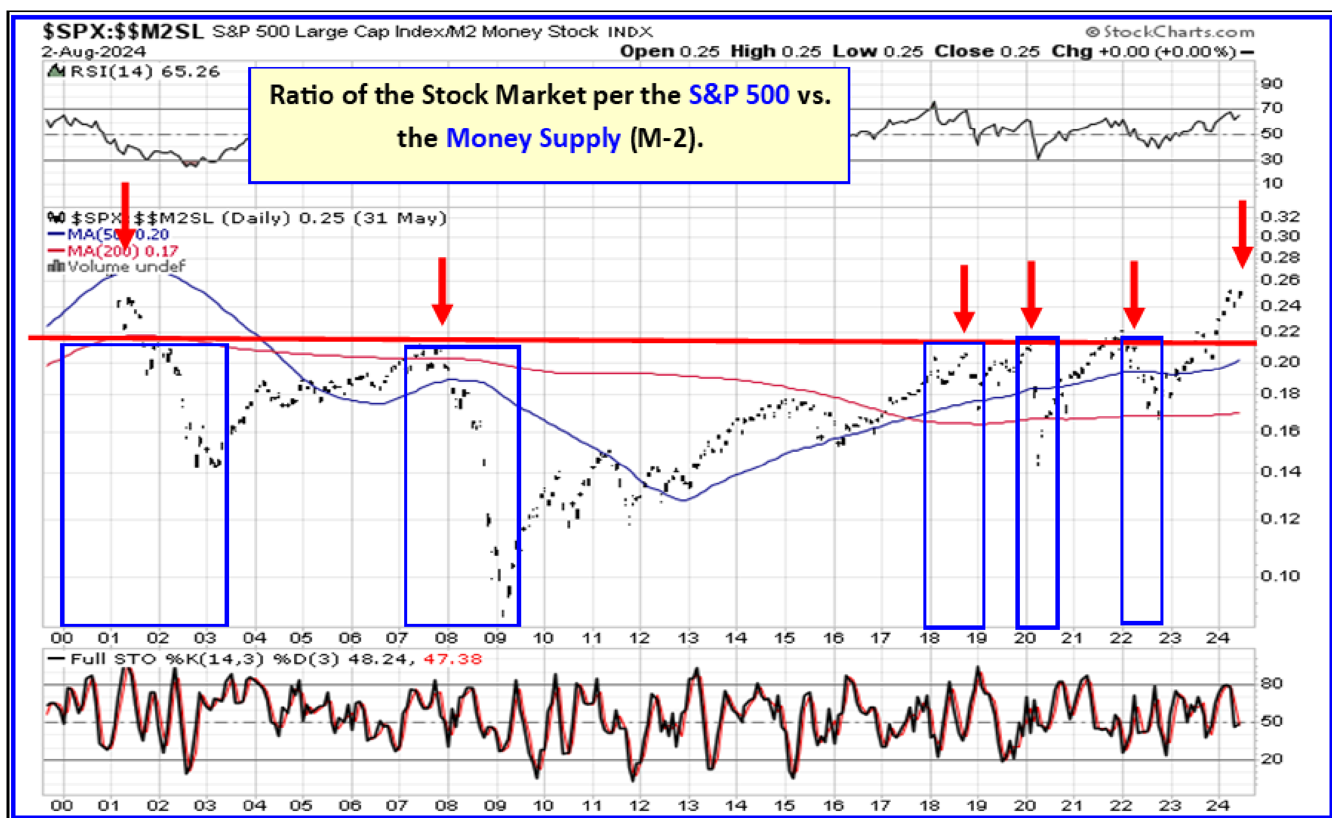


The Yield curve, as measured by the spread between 2-year and 10-year U.S. Treasury Notes, just rose back to flat, after being inverted for over two years, since June 8th, 2022. In other words, the yield on a 2-year Treasury was above the yield on a 10-year Treasury, until now.

But what happens after the yield curve as measured by these two Treasury yields "un-inverts," or flattens? What does this change mean? A lot of chatter in the mainstream media this past week is misleading people to think that this flattening is a good event for the stock market. Wrong. Just the opposite. The answer from history is that a stock market plunge and significant economic recession begins when the yield curve moves from inverted to flat or upward. This has happened *every time* since 1975, as shown by the St. Louis' Fed's chart that we show below.

What this flattening is telling investors, is that they should consider moving to high alert, and based upon the Fed's chart, the sooner the better.

Now, what is interesting is that the Fed exploded growth in the M-2 Money Supply with an injection of $6.0 trillion in a little over one year, back in 2020-2021. This money found its way into the stock market, and created a severe historic imbalance, with an alarming warning for the stock market. Look at the next few charts to see what happens to the stock market when it reaches an extreme high as compared to the money supply:



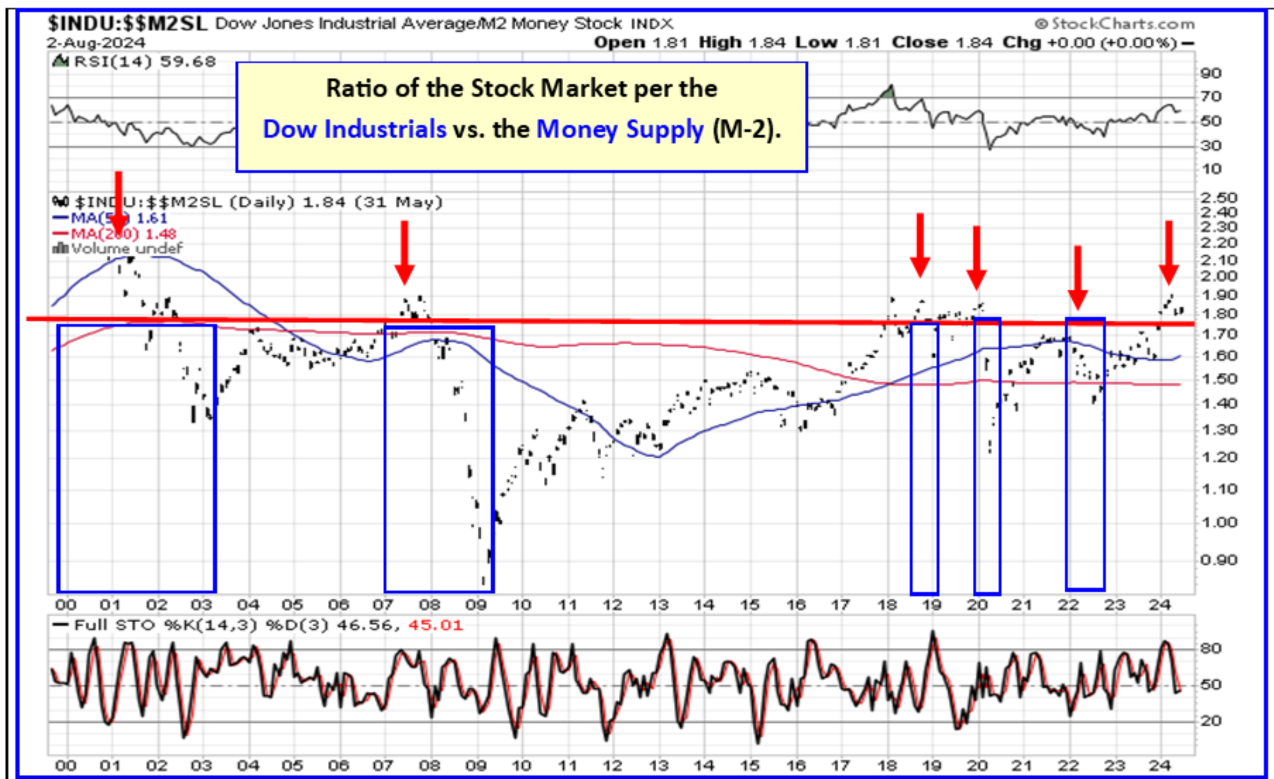
Above we show one of the most accurate Recession / Stock Market Plunge Indicators anywhere, and few are noticing: The Ratio of the price of the stock market (in the above case per the S&P 500) to the

Money Supply (M-2). Since 1999 there have been 5 signals and all five resulted in Crashes. Now we see a 6th Signal.

Historically, when this ratio rises to, or above 0.22, an Economic Recession and Stock Market plunge (or even a crash) is imminent.

This Ratio is currently at 0.25, An Indicator on Red Alert for the start of a major economic Recession and Stock Market Decline. Here is how this indicator performed historically:

> **2000 to 2003: The S&P 500 Crashed 49.2%**
>
> **2007 to 2009: The S&P 500 Crashed 57.6%**
>
> **2018: The S&P 500 Crashed 20.2%**
>
> **2020: The S&P 500 Crashed 35.4%**
>
> **2022: The S&P 500 Crashed 27.5%**
>
> **2024: The Next Crash? According to this Indicator, Get Ready.**



Above we show one of the most accurate Recession / Stock Market Plunge Indicators anywhere, as it applies to the Ratio of the price of the Dow Industrials to the Money Supply (M-2). Since 1999 there have been 5 signals and all five resulted in Crashes. Now we see a 6th Signal.

Historically, when this ratio rises to, or above 1.80, an Economic Recession and Stock Market plunge (or even a crash) is imminent.

This Ratio is currently at 1.84, An Indicator on Red Alert for the start of a major economic Recession and Stock Market Decline.

The Fed is finishing a clever tactic of manipulation. Since 2021, they engaged the "Problem, Reaction, Solution" practice, a classic Heglian Dialectic application to control the thinking, status, and behavior of the masses. The Fed created the "problem," by printing an extraordinary, never approached before, $6.0 trillion in a little over a year, an unnecessary and unheard-of act, which caused 50% to 100% (and more for many items) hyperinflation over the past two years. Then they added to the "problem" by aggressively yanking billions of dollars back from the economy as they reduced their outlier, never before seen, gigantic balance sheet (that they created from the $6.0 trillion printed out-of-thin-air all at once event), forcing interest rates to rise and remain high far longer than they should have.

Then they sat back and watched the "reaction" of their created problem, as the masses suffered through the "shock and awe" of instantaneous hyperinflation.

Next, they are going to pretend to play hero by lowering interest rates after it is too late, a fake "solution." Their resulting accomplishment in just three years (the actual true solution for their problem and reaction agenda) is: Economic upheaval, the destruction of purchasing power and wealth for the masses; a massive paradigm upside shift in the price of supplies, labor, and property, that could take a generation of time, or longer, for people to get back to even. Nice work.

All of which begs the question, "Was this gross incompetence, or was it designed malfeasance?"

If the stock market and economy plunge over the coming months and years, it will go down as one of the most egregious mismanagements of the money supply by the Federal Reserve since they raised interest rates at the start of the Great Depression, back in the early 1930's.

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