Chart of the Month | November 2026

What History Says About Stocks When the Fed Starts Raising Rates

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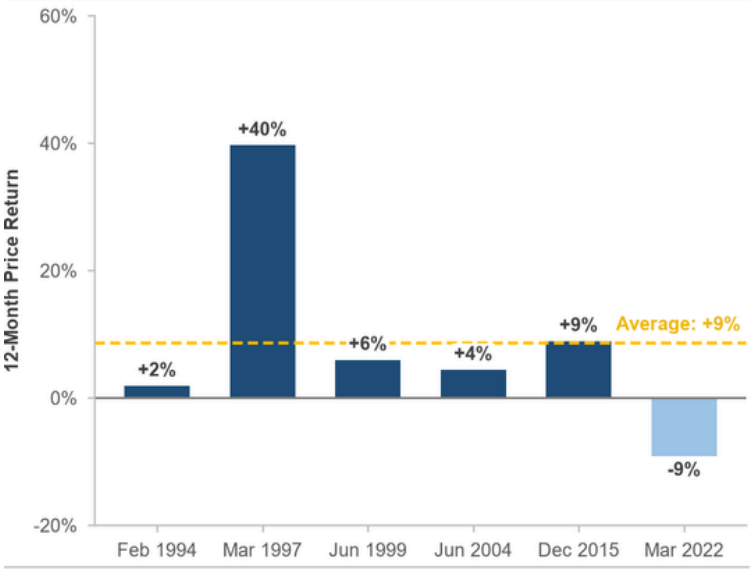
In September, the Federal Reserve raised interest rates, its first rate hike since 2023. Markets expect another increase at the December meeting, with the potential for additional rate hikes in early 2027. Higher rates can make borrowing more expensive for consumers and businesses, raising questions about the potential impact on stocks, but history offers a more balanced answer. Since 1990, the Fed has started six tightening cycles, and the S&P 500 was higher 12 months later in 5 of those 6 periods.

Figure 1 shows the S&P 500's return in the 12 months after the first rate hike of each cycle. The average gain was +9%, although that figure is boosted by a strong +40% return during the 1997 cycle. The more typical outcome was a modest gain, with a median return of +5%. The only decline came in 2022, when the S&P 500 fell -9% over the following year. That tightening cycle was unusual, with inflation exceeding 8%, its highest level in four decades, and the Fed raised rates seven times in 2022 alone. In earlier cycles, the Fed began raising rates while inflation was around 3% or lower, and the economy was strong enough to absorb higher borrowing costs.

While stocks generally finished higher, the gains did not always come in a straight line. Figure 2 graphs the path the market has taken along the way. On average, stocks experienced some initial turbulence after the first rate hike, declining about -4% at the low point, as investors adjusted to the prospect of higher rates. The average cycle then recovered within about four months and moved higher over the rest of the year, but individual cycles varied considerably. The chart shows that the range of outcomes was wide, which is a useful reminder that averages smooth over a lot of short-term movement. So far, this tightening cycle has followed a similar early pattern. The S&P 500 is roughly flat since the September rate hike, despite some volatility tied to a selloff in technology stocks.

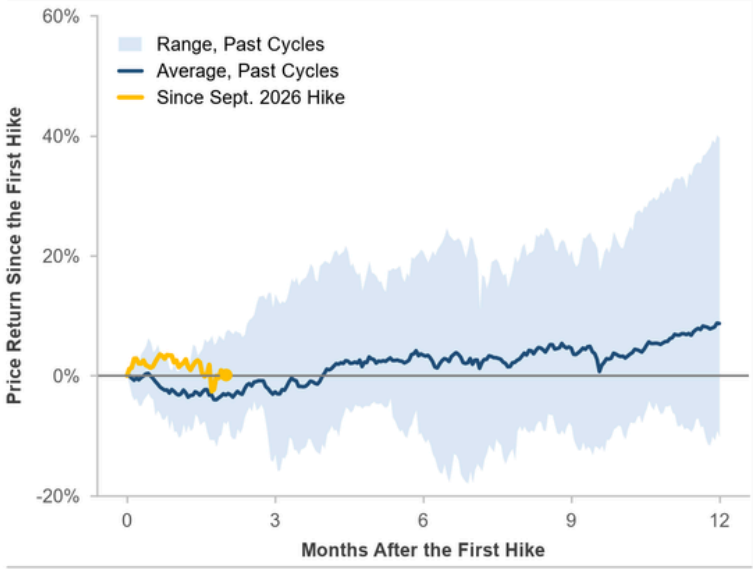
Looking ahead, the question isn't whether the Fed raises rates again, but how much additional tightening the economy may need. Today's backdrop sits between the past cycles. Inflation is running near 3.7%, higher than most earlier cycles but far below the 2022 peak, and the economy grew at a strong pace in the third quarter. The Fed typically raises interest rates when it sees an economy with enough momentum to push prices higher, but that same momentum often supports corporate earnings. That's one reason the start of a rate-hiking cycle hasn't usually marked the end of a rising market. While every cycle is different, history suggests that higher rates alone aren't necessarily a reason for long-term investors to change course.

Figure 1 – S&P 500 Rose in the Year After 5 of the Last 6 First Hikes



Source: S&P Global, Federal Reserve. S&P 500 price return from the close on the day of the Fed's first rate increase after a period of cuts to the close 12 months later, since 1990. Past performance is not indicative of future results.

Figure 2 – S&P 500 After the First Hike: Past Cycles vs. Today



Source: S&P Global, Federal Reserve. S&P 500 price return in trading days from the first hike; past cycles are the six shown in Figure 1. The S&P 500 is an unmanaged index that cannot be invested in directly. Data as of 11/13/2026.

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