Nasdaq

# Navigating the Federal Reserve's Rate Cuts: What Investors Need to Know

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2025 and early 2026 have been characterized by multiple market-moving forces, including trade and fiscal policy uncertainty, geopolitical tensions, and rapid advancements in artificial intelligence (AI). These crosswinds have continued and, in the case of AI, have even accelerated into 2026. Adding to this backdrop, the Federal Reserve's interest rate decisions and forward guidance remain of central focus. Notwithstanding the January jobs report and CPI reading that were better than expected, officials weigh whether a weakening labor market or persistent inflation poses greater risk to economic stability.

Following three consecutive 25 bps rate cuts in 2025, the Federal Reserve kept the federal funds rate steady at 3.5%-3.75% at its meeting in late January. Notably, the rate decision was not unanimous with two officials dissenting in favor of a 25-basis point reduction. The FOMC noted continued strength in economic growth and stability in the labor market, while Chair Powell reiterated that future policy easing will remain guided by incoming data. Expectations for 2026 have shifted, with markets now pricing in two additional 25 bps cuts this year with the first expected sometime in the summer.  Further clouding the rate outlook is the nomination of Kevin Warsh as the new Fed chair with uncertainty around how strongly he will influence monetary policy this year as well as the timing of his confirmation.

While markets grapple with the future path of interest rates, it may be helpful to look at prior rate cuts and equity market reactions. Historical patterns suggest that the impact of rate cuts depends on the macroeconomic backdrop. Cuts during recessions and other stress periods ("proactive easing") tend to provide limited support for equities, as lower borrowing costs cannot fully offset the drag of a contracting economy. In contrast, cuts during a soft landing ("risk management") often boost demand and earnings, creating a more favorable environment for risk assets.

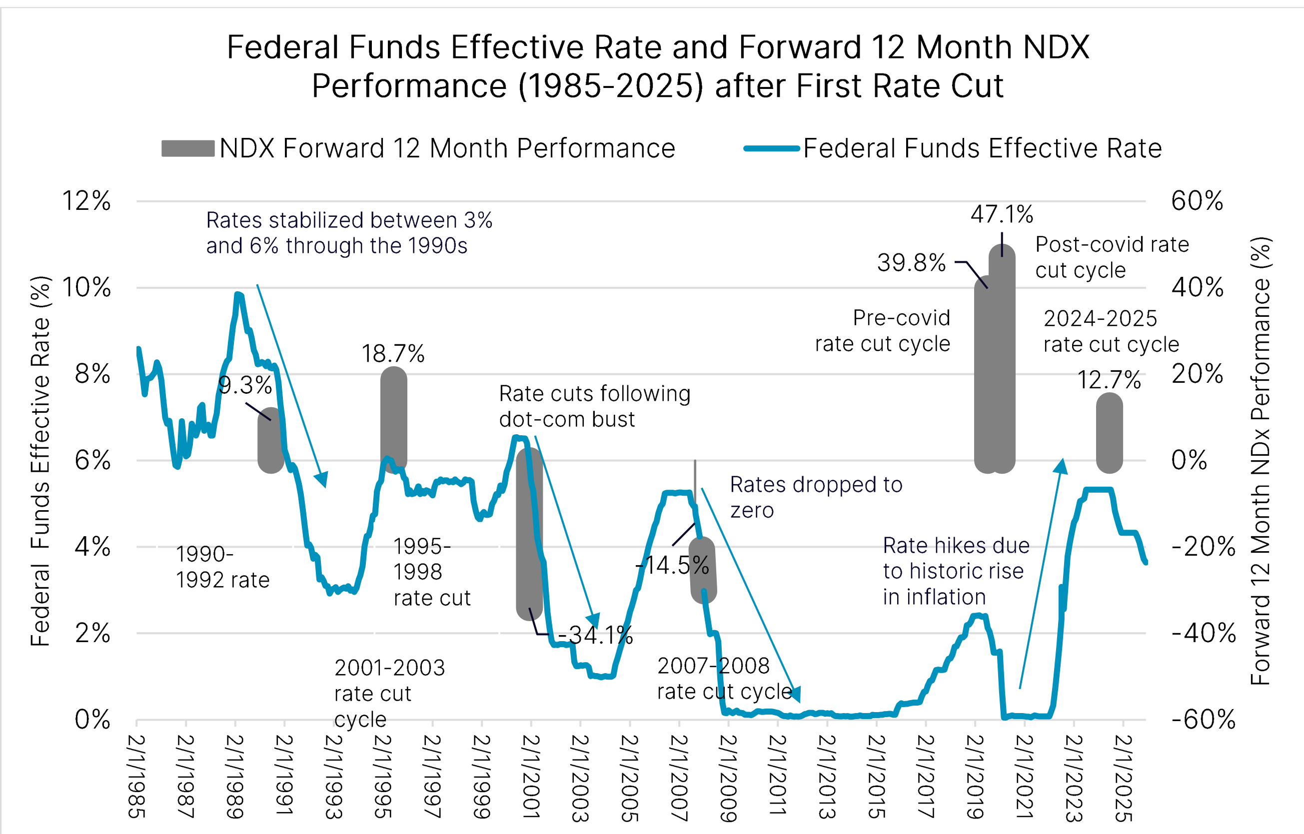
Unlike proactive easing, the current cycle is best characterized as risk management, aimed at addressing labor market softness and residual inflation pressures. This uncertainty has fueled volatility across major equity indices. In the near term, investors may see some support for equities—though the forces of AI disruption, global trade risks and geopolitical uncertainties are driving dispersion across and within sectors.

Beyond the policy announcement, investors must consider how easing impacts the performance of equities over time. Depending on the macro environment, Federal Reserve rate cuts may function as a tailwind for equities, particularly sectors closely tied to the domestic economic cycle—such as banks, homebuilders, and materials companies. Sectors that have lagged in previous rallies may also find renewed momentum.

Lower borrowing costs reduce interest expenses for debt-reliant businesses, improving cash flow and profitability. At the same time, easier monetary conditions typically stimulate consumer spending, benefiting companies with strong exposure to discretionary demand and consumer-driven segments.

## Historical perspective of Fed rate cutting cycle

While today's cycle carries its own unique characteristics, history can offer valuable lessons. The chart below describes the trajectory of the federal funds rate from 1985 and the forward 12-month performance of the Nasdaq-100 across seven different rate cut cycles. Under Fed Chair Paul Volcker, rates peaked at 20% in June 1981, the highest in U.S. history. This spike in rates triggered a recession. After the 1980s peak, rates declined and then stabilized in a range between 3% and 6% through the 1990s. The early 2000s saw rate cuts following the dot-com bust, with rates dropping to 1% by 2003. Rates rose again before the 2008 Global Financial Crisis (GFC), then plunged to near zero as the Federal Reserve introduced emergency measures to save the economy. Post the GFC, rates stayed near zero before rising in the pre-Covid-19 years.  During the Covid-19 pandemic, rates plummeted, hitting an all-time low of 0.05% in April 2020. To combat a historic rise in inflation following the expansionary fiscal response to the pandemic, the Fed raised rates sharply, from 0.33% in April 2022 to 5.3% in August 2023. Rate cuts resumed again in late 2024 and by November 2025, rates steadied at around 3.9%. In summary, the federal funds rate has exhibited a cyclical pattern—rising during inflationary periods and falling during recessions—reflecting the Fed's dual mandate to manage price stability and support economic growth[1].




Source: Board of Governors of the Federal Reserve System (US) via FRED®

[1] https://www.forbes.com/advisor/investing/fed-funds-rate-history/

## Performance of the Nasdaq-100 12 months after first rate cut in the cycle

| Rate cut cycle | Nature of rate cut | 12-Month Performance of the Nasdaq-100 After 1st Rate Cut (%) |
|---|---|---|
| 1990-1992 | Risk-management (non-recessionary period) | 9.3% |
| 1995-1998 | Risk-management (non-recessionary period) | 18.7% |
| 2001-2003 | Proactive easing (recessionary period) | -34.1% |
| 2007-2008 | Proactive easing (recessionary period) | -14.5% |
| August 1st 2019-February 28th 2020 | Risk-management (non-recessionary period) | 39.8% |
| March 2nd 2020 – July 31st 2020 | Proactive easing (recessionary period) | 47.1% |
| 2024-2025 | Risk-management (non-recessionary period) | 12.7% |

Source: Bloomberg

## Performance of the Nasdaq-100 12 months after last rate cut in the cycle

| Rate cut cycle | Nature of rate cut | 12-Month Performance of the Nasdaq-100 After Last Rate Cut (%) |
|---|---|---|
| 1990-1992 | Risk-management (non-recessionary period) | 22.0% |
| 1995-1998 | Risk-management (non-recessionary period) | 94.3% |
| 2001-2003 | Proactive easing (recessionary period) | 26.1% |
| 2007-2008 | Proactive easing (recessionary period) | 44.8% |
| August 1st 2019-February 28th 2020 | Risk-management (non-recessionary period) | 39.8% |
| March 2nd 2020 – July 31st 2020 | Proactive easing (recessionary period) | 47.1% |

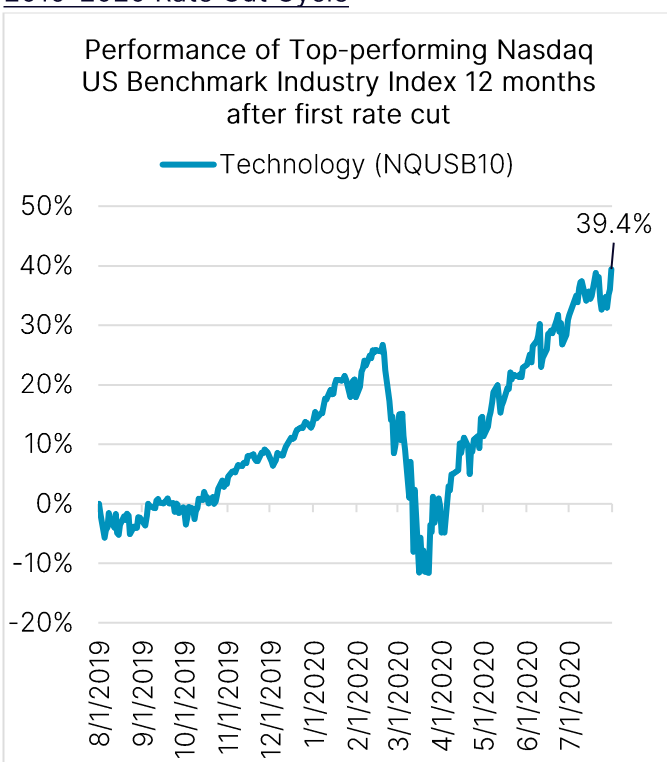
Source: Bloomberg

The tables above capture the performance of the Nasdaq-100 following rate cuts across six distinct cycles: 2024–2025, 2019–2020, 2007–2008, 2001–2003, 1996–1998, and 1990–1992. The results after the first rate cut reveal mixed outcomes. Cuts during crisis periods—such as 2007–2008 and 2001–2003—were associated with declines in Nasdaq-100 performance, consistent with expectations that equities tend to underperform when policy easing signals economic distress. In contrast, cuts during non-recessionary or risk-management phases—2024–2025, 2019–2020, 1996–1998, and 1990–1992—produced significantly positive performance, reinforcing the view that proactive easing supports growth-oriented sectors. The 2019-2020 rate cut cycle can be best understood as two distinct phases: a proactive, risk management adjustment phase from August 1st 2019 to February 28th 2020, followed by a more aggressive, emergency response to the Covid-19 pandemic from March 2nd 2020 to July 31st 2020. The Nasdaq-100 generated strong returns of 39.8% in the 12 months post the risk management rate cut in July 2019, and even stronger returns of 47.1% in the 12 months post the emergency cut in March 2020. The emergency cut coincided with one of the fastest bear-market drawdowns in history, setting the stage for a powerful rebound. At the same time, powerful structural tailwinds in Technology accelerated during the Covid-19 pandemic, further boosting returns. Unlike other cuts which are proactive in nature, the March 2020 cut corresponded with strong Nasdaq-100 performance, as pandemic-driven demand uniquely benefitted constituents of the index. Across all the outperforming cycles, the average gain was approximately 15.5%.

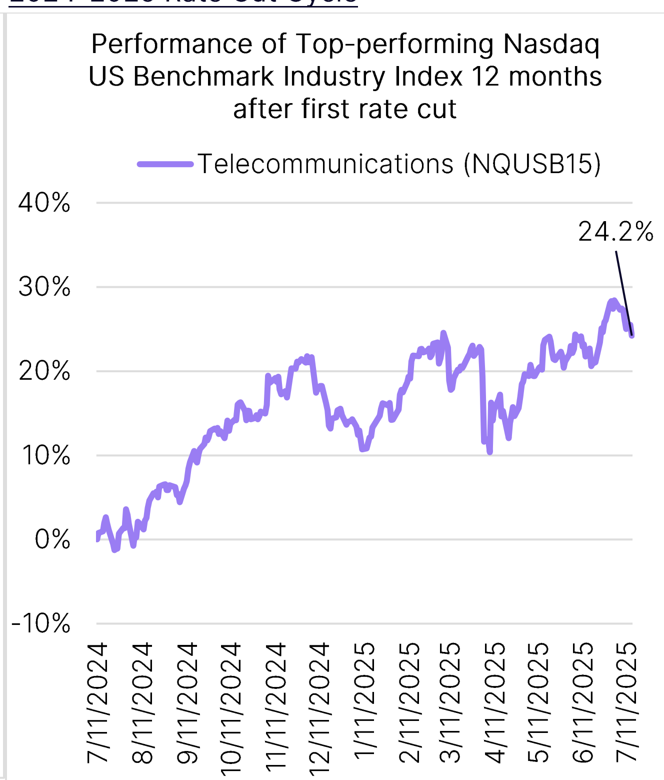
Following the final rate cut of the cycle, the Nasdaq-100 has registered overwhelmingly positive performance, regardless of the nature of the initial rate cut. This makes intuitive sense as the final rate cut coincides with a period of greater economic certainty and higher earnings expectations. Additionally, policy uncertainty recedes, which further boosts investor sentiment. This analysis underscores a critical insight: the nature of the rate cut—proactive easing versus risk management—materially influences equity outcomes. Initial cuts delivered amid economic distress tend to coincide with weaker equity performance, while risk management and terminal cuts are associated with stronger, more durable gains.

## Sector performance divergence across rate-cut cycles

2019-2020 Rate Cut Cycle



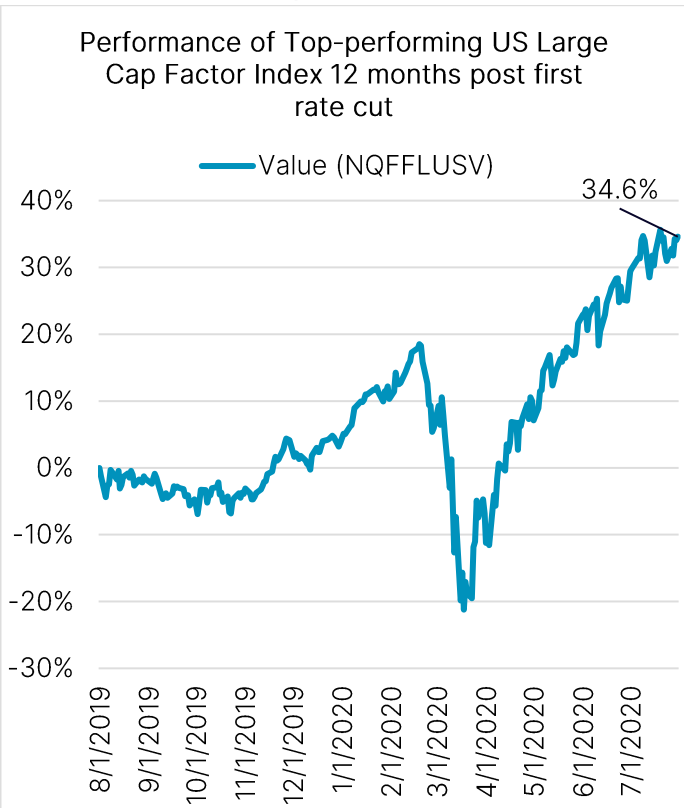

2024-2025 Rate Cut Cycle



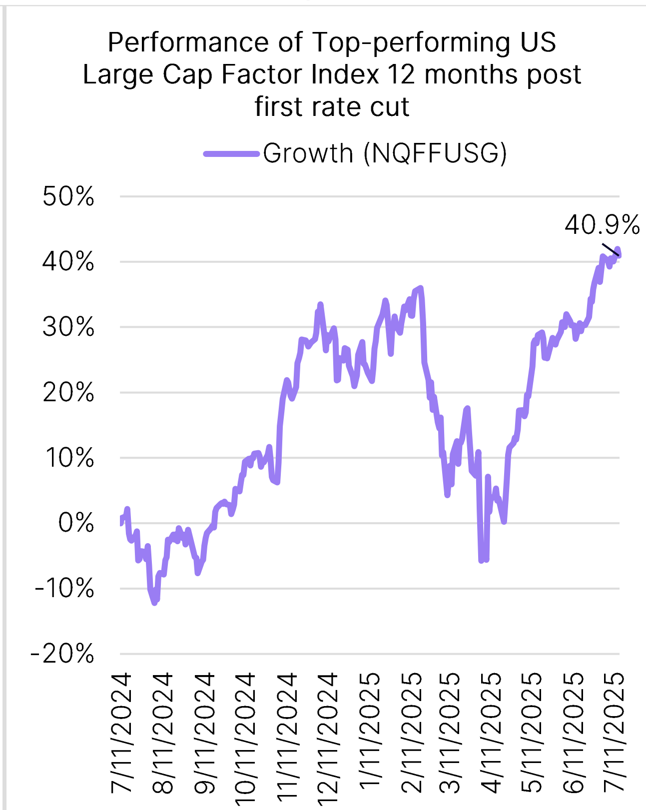

Source: Bloomberg
Note: NQUSB10™ refers to the Nasdaq US Benchmark Technology™ Index and NQUSB15™ refers to the Nasdaq US Benchmark Telecommunications™ Index

We analyzed the performance of ten Nasdaq US Benchmark Sector Indexes over the twelve months following the first rate cut in two cycles, 2024-2025 and 2019-2020 and found no clear sectoral winner. Rate cuts tend to amplify existing structural and balance-sheet advantages of sectors, limiting their usefulness as a standalone signal for sector selection. The Telecommunications sector outperformed all other sectors after the July 11th 2024 cut, followed by Consumer Discretionary and Industrials. As a highly leveraged and capital-intensive sector, Telecommunications' sensitivity to rate cuts is high. With cheaper financing, telecom companies were able to increase their investments in data centers and 5G, boosting their investment appeal. In contrast, in the 2019-2020 easing cycle, Technology outperformed all other sectors, followed by Healthcare and Industrials. Technology, as a sector, benefitted from strong structural tailwinds driven by the adoption of cloud computing and software as a service ("SaaS") as well as factors such as the surge in remote work that characterized the pandemic. Rate cuts provided additional support. This analysis underscores that sector leadership can differ materially by cycle and may be dominated by fundamental and thematic developments.

2019-2020 Rate Cut Cycle




2024-2025 Rate Cut Cycle

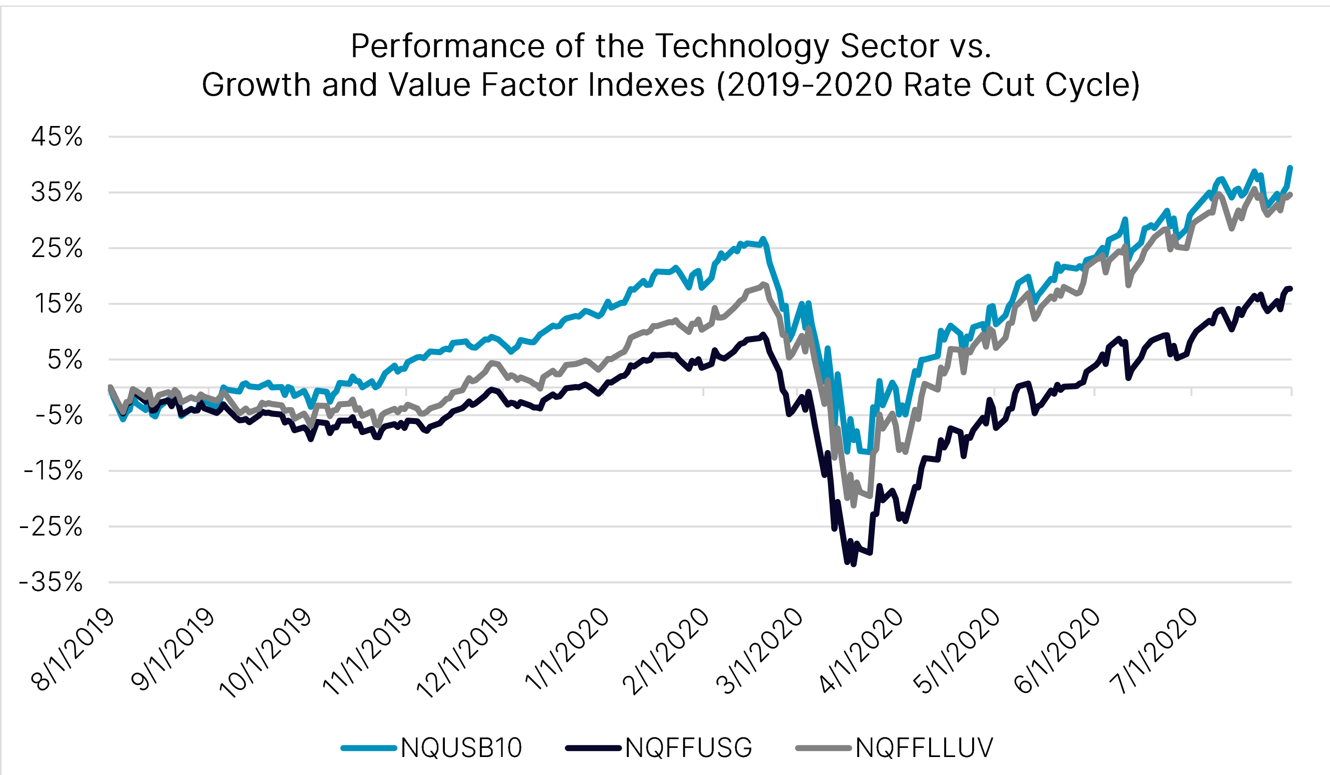



Source: Bloomberg

Note: NQFFLUSV refers to the Nasdaq Factor Laggard US Value Index and NQFFUSG refers to the Nasdaq Factor Family US Growth Index

We analyzed the performance of six US Large Cap Factor Indexes including Low Volatility, Value, Momentum, Quality, Growth and High Yield post the first rate cut in two cycles, 2024-2025 and 2019-2020. As with sectors, rate cuts offer limited insight into factor leadership. Valuation dispersion and earnings momentum are more reliable drivers of factor performance than monetary policy easing alone. As seen in the chart above, Growth outperformed all other sectors following the July 11th 2024 rate cut, followed by Value and Low Volatility. Growth stocks benefited from lower rates, exposure to secular themes including artificial intelligence and strong fundamental underpinnings of mega-cap technology companies. In contrast, Value outperformed all other sectors following the August 1st 2019 cut, followed by Quality and Momentum. Heading into 2019, Value stocks were deeply undervalued. In the twelve-month period that followed the first rate cut, Value stocks outperformed as valuation spreads normalized, reflecting a classic mean-reversion dynamic. Additionally, macroeconomic conditions favored rotation into defensive names. The results outlined above underscore that factor leadership can also differ materially by cycle. Investors may be better served by focusing on the nature of the rate cut –proactive easing or risk management – rather than relying on easing as a sector or factor selection signal.

The post-pandemic environment supported both a technology expansion and a cyclical rebound in Value sectors. While the technology sector got a boost from structural tailwinds including cloud migration and remote work, value-oriented sectors benefitted from reopening demand, inflation and rate normalization, strong operating leverage and stronger balance sheets. As seen in the chart below, the trajectory of the performance of the Technology sector, as represented by NQUSB10, broadly tracked that of the Value Factor Index, as represented by NQFFLUSV during the 2019-2020 rate cut cycle.




Source: Bloomberg. NQUSB10 refers to the Nasdaq US Benchmark Technology Index, NQFFLUSV™ refers to the Nasdaq Factor Laggard US Value™ Index and NQFFUSG™ refers to the Nasdaq Factor Family US Growth Index

## Conclusion

An analysis of historical rate-cutting cycles suggests that monetary policy easing does not produce uniform outcomes across markets, sectors or factors. The nature of the rate cut – proactive easing or risk management – materially influences the behavior of the market. The Nasdaq-100 has registered strong performance post the initial risk-management cuts while exhibiting weaker performance post proactive easing cuts. Nasdaq-100 has had uniformly positive performance following the final rate cut, regardless of the nature of the rate cut. The current rate cut cycle can be best characterized as 'risk management' as the Federal Reserve adjusts policy to address labor market conditions while inflation remains above target. In similar environments, the Nasdaq-100 has exhibited historically strong returns. In contrast, the impact of rate cuts on sector and factor returns has been less conclusive with secular and thematic trends often playing a more meaningful role.