IN THIS REPORT The Federal Reserve will likely soon begin cutting interest rates. We'll examine what's happened so far and what this could mean looking forward.

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After the most aggressive rate-hiking cycle in four decades, a modest reduction in rates, and a long pause, the Federal Reserve is widely expected to resume cutting interest rates. The natural question is: What does this mean for my investments?

Why the Fed is Cutting Now

The Fed raises rates to slow inflation and cool the economy; it cuts rates to stimulate growth when inflation is under control, or when the economy is losing momentum. In this case, inflation has come down from the highs we saw in the early 2020s but remains stubbornly above the Fed's long-run 2% inflation target. However, leading indicators point to a moderation in economic growth. By lowering borrowing costs, the Fed aims to support business investment, consumer spending, and overall confidence.

Historically, the Fed has cut rates in a variety of different economic environments. For example, in 1995, the Fed began cutting rates and the economy continued to expand for several years, supporting strong market returns. In contrast, in 2001 and 2007, cuts arrived as recessions were already unfolding. This range of outcomes highlights why it's difficult to draw a simple conclusion about how markets will respond.

Impact on Stocks

Over longer periods, lower interest rates tend to support equities by making borrowing cheaper for companies and by making bonds less competitive relative to stocks. But the average historical reaction hides a lot of variation, which is why trying to time stock moves around Fed actions is risky. Lower rates can affect sectors differently. Interest-rate sensitive areas like housing have been among the most sluggish areas of the economy recently,

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and these areas may benefit from cheaper borrowing costs. That said, sector leadership often shifts unpredictably. A diversified equity portfolio remains the best way to capture growth over time, regardless of the rate cycle.

Impact on Bonds

When interest rates fall, the prices of existing bonds typically rise. Note that the market typically begins pricing in future moves by the Fed months in advance of the actual decision and announcement, so investors are best advised to not attempt to time the market around Fed decisions. With interest rates lower, new bonds will be issued at lower yields, which means reinvestment will occur at lower interest rates.

Impact on Cash

For savers, the downside of rate cuts is obvious: yields on savings accounts, CDs, and money market funds will likely drift lower. While cash plays an important role in emergency reserves and near-term spending needs, relying on it for long-term growth becomes even less attractive when rates fall.

Staying Disciplined

It's tempting to see the start of a rate-cutting cycle as a signal to overhaul your portfolio. But Fed policy is only one piece of the economic puzzle, and its effects often unfold in unpredictable ways. The most reliable path is to stay invested in a diversified mix aligned with your goals, risk tolerance, and time horizon. This helps ensure your portfolio remains positioned for a variety of possible outcomes.