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Markets

Browbeaten Stock Bulls Wilt in the Face of Rising Fed Hostility

- S&P 500's 19% drawdowns tended to foreshadow inflation peak
- 'Equity market will be the catalyst' of slowdown: TS Lombard

By Isabelle Lee and Lu Wang
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In retrospect, bulls should maybe have been more worried that one of the most reliable tools the Federal Reserve has for subduing inflation is to scare the US equity market. They're getting the message now.

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A lingering danger for stocks is that getting them to fall has its merits when it comes to relieving price pressures in the economy. Besides its chilling effect on consumers, a gutted equity market has usually been a prerequisite for subduing the worst bouts of inflation, a study by The Leuthold Group found. Disinflationary effects have historically kicked in when the S&P 500 drops more than 19%, according to the investment firm. It breached that level in June and is now approaching it again.

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About one-quarter of US household assets are invested in equities. And based on a 2020 study, every dollar lost in stocks leads to a 3 cent reduction in spending. Data like that support a view that reining in stocks is a legitimate goal for policy makers.