



# UNBOUNDED WEALTH

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## **Why the Next Rate Cut May Not Be Bullish**

Investors are starting to lean in the same direction.

The Federal Reserve is getting closer to cutting rates, and the assumption is that when it happens, it will be a positive for stocks. Lower rates mean cheaper money, more liquidity, and support for higher valuations. That logic has worked before, so it feels familiar.

But it's also incomplete.

Because the first rate cut doesn't happen when everything is going well. It happens when something has already started to weaken. By the time the Fed makes that move, the shift is already underway—whether it's visible in the data or not.

That's the part most investors overlook.

They focus on the action—the cut itself—because it feels like a clear turning point. But markets don't respond to the action alone. They respond to the reason behind it.

And that reason isn't always positive.

### **What Rate Cuts Actually Mean**

The Fed doesn't cut rates because everything is working.

It cuts because something isn't.

Sometimes the problem is obvious. Economic growth slows. Unemployment rises. Financial markets begin to show stress. Other times, the weakness is harder to see. Margins begin to tighten. Demand softens. Earnings growth slows beneath the surface.

But the pattern is consistent.

The Fed is reacting to conditions that are already in motion.

And that distinction matters, because markets tend to price in what's coming next—not what just happened.

### **What History Shows**

There are periods when rate cuts support markets. But those tend to occur when the cuts are preventive, not reactive.

When cuts come after a period of excess—or when something is already breaking—the outcome is very different.

In 2000 and 2001, the Fed began cutting rates as the dot-com bubble was already unraveling. Valuations had stretched too far, capital had been misallocated, and earnings expectations were unrealistic. The cuts didn't stop the decline. The market continued lower for nearly two years as those excesses worked their way out of the system.

In 2007, the pattern repeated. The Fed began cutting as cracks were forming in housing and credit markets. At first, there was optimism that lower rates would stabilize conditions. But the underlying problem wasn't the cost of money—it was the quality of credit and the amount of leverage in the system. The cuts came early in what became a much deeper decline.

Even in 2019, when the Fed cut rates without an immediate recession, the context was different. Growth was slowing, global conditions were weakening, and financial markets were tightening. Stocks did move higher, but only because the system itself wasn't already under severe stress.

That's the difference.

Rate cuts don't create outcomes on their own. They respond to conditions that are already in place.

### **Why This Matters Now**

Right now, many investors are treating future rate cuts as a clear positive. The assumption is that lower rates will support valuations and extend the current cycle.

That may happen.

But it depends entirely on why the Fed is cutting.

If growth is steady and inflation is under control, rate cuts can provide support. But if earnings are slowing, margins are under pressure, and demand is weakening, then rate cuts are not a catalyst.

They're a response.

And markets tend to recognize that quickly.

This is where expectations come into play. If investors are positioned for rate cuts to be bullish, but the underlying reason for those cuts is deterioration, there is a gap between perception and reality.

That gap is where risk builds.

### **The Pattern Most Investors Miss**

Markets rarely turn on obvious news.

They turn when the reaction to that news begins to change.

That's why the first rate cut is often misunderstood. It doesn't feel negative. It feels supportive. It gives the impression that the Fed is stepping in to help.

But in many cycles, the first cut marks the beginning of a shift, not the end of a problem.

The policy response doesn't fix the issue.

It confirms that the issue exists.

And when that happens, markets can behave in ways that surprise investors who are focused only on the headline.

### **What Should Investors Do?**

This is where discipline matters. Not prediction. Not guessing. Just a clear way of thinking about what's happening.

Start by focusing on the reason behind the move, not the move itself. A rate cut is simply a tool. What matters is the condition that required it.

Next, pay attention to the data that reflects real activity—earnings, margins, and demand. These tend to tell you more about the direction of the market than policy decisions alone.

It's also important to expect volatility. The rate cut doesn't create clarity. It often introduces uncertainty, because it signals that conditions are shifting and the market is still adjusting.

Finally, avoid the instinct to treat the move as the final signal. Markets don't adjust all at once. They respond in stages, and those stages can take time to unfold.

### **The Takeaway**

Rate cuts are not inherently bullish or bearish.

They are situational.

Sometimes they support growth. Sometimes they follow weakness that continues to develop.

The difference isn't the cut itself.

It's the reason behind it.

And that's where most investors lose the thread. They focus on the action, not the context.

But context is what drives outcomes.

### **P.S.**

When the Fed cuts rates, most investors see a green light. They assume it's time to buy. But the Fed doesn't cut rates because things are strong. It cuts because something is starting to break. If you miss that, you're not seeing the market clearly. And that's when small mistakes turn into big ones.

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