

These Stocks and Sectors Shine After the Rate-Hike Cycle Ends

Stocks exploded to the upside last week after the Federal Reserve held benchmark interest rates steady at 5.25% to 5.5% at their November policy meeting.

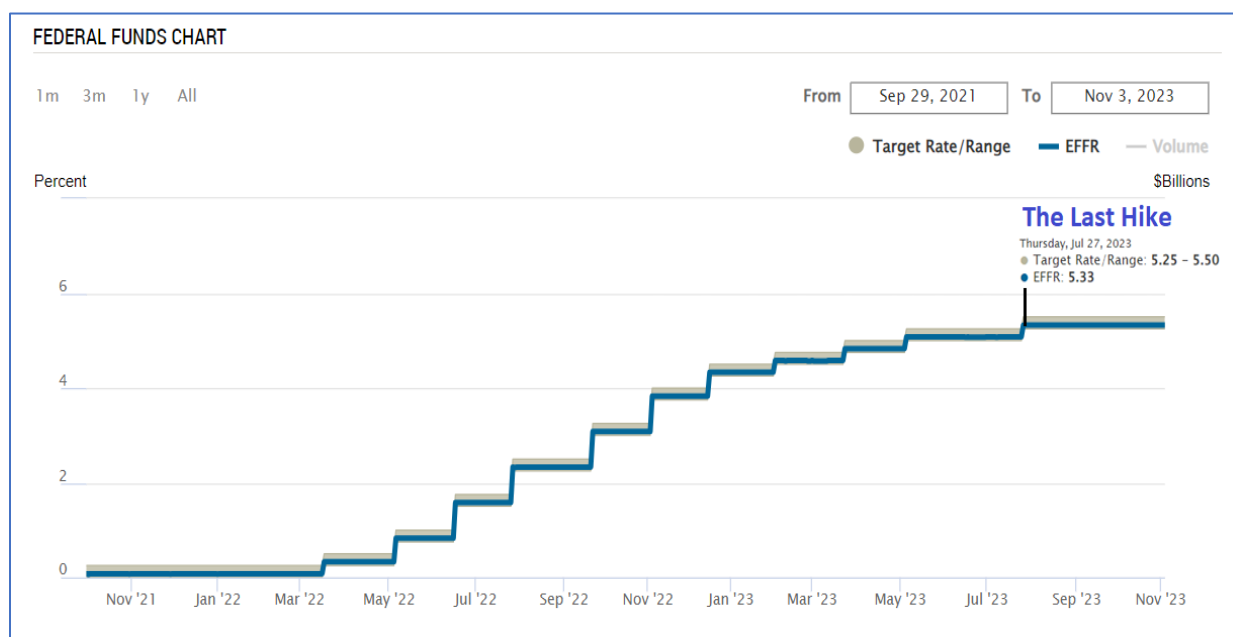
The S&P 500 Index surged 5.9% and small-cap stocks really took off, with the Russell 2000 Index surging 7.6%. Those are the strongest market gains since November 2022, right after stocks bottomed.

Digging deeper into the best sector performance, you'll see ALL the leaders were cyclical and interest-rate-sensitive groups.

- Real Estate: 8.4%
- Financials: 7.4%
- Consumer Discretionary: 7.2%
- Technology: 6.8%

These sectors are the usual early-cycle winners that perform best in a new bull market cycle. Notice that tech, this year's leading performer, took a back seat last week to real estate, financials, and discretionary.

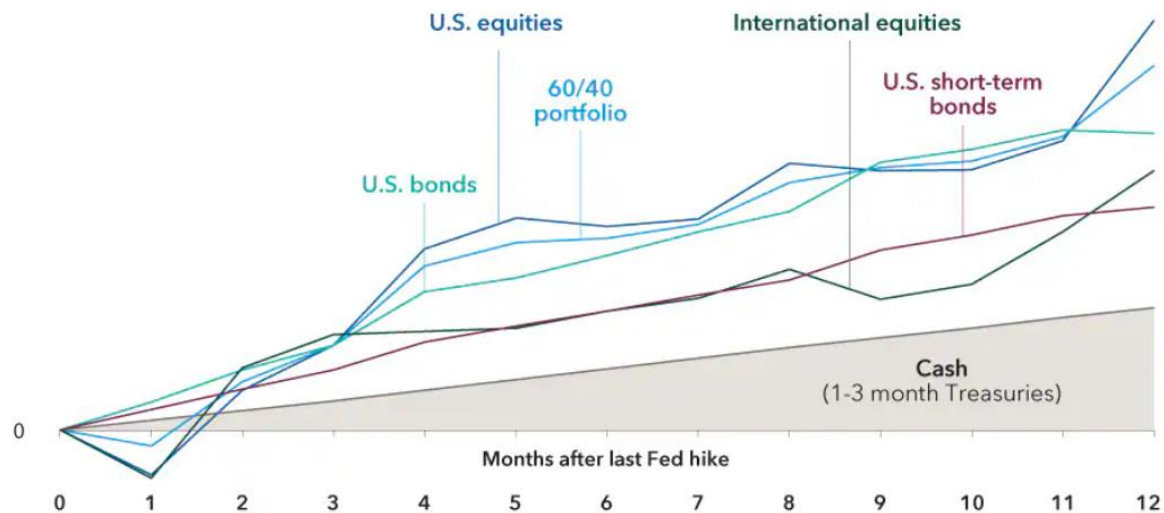
These are all interest-rate-sensitive sectors, especially real estate and financials. And this tells me loud and clear that the Fed is likely **done** raising rates, as you can see below.



In fact, markets are now pricing in interest rate cuts, which is exactly why interest-rate-sensitive sectors and stocks outperformed. These are the assets that should outperform with interest rates (at the very least) on hold, and most likely lower in 2024.

So how will stocks fare overall if, in fact, we have seen the last hike by the Fed? The answer is: very well indeed.

Average returns following the last U.S. Fed hike – Prior four hiking cycles



Sources: Capital Group, Morningstar. Chart represents the average returns across respective sector proxies in a forward extending window starting in the month of the last Fed hike in the last four transition cycles from 1995 to 2018 with data

On average, stocks gain about 5.9% six months after the last rate hike. The Fed last increased rates on July 27, skipping rate hikes in the past two meetings since then.

And assuming July 27 was the last hike, the S&P 500 is down 3.8% since then.

This means stocks have got some catching up to do, implying a rally of about 9.7% for the S&P between now and the end of January 2024 ($5.9 + 3.8 = 9.7$), which would be six months after the last hike in July.

And historically, 12 months after the last hike, the S&P is up nearly 10% on average, with large-cap value stocks performing even better, up 11.2%.

And the large-cap value style may just be the best opportunity for stock investors right now.

The **iShares Russell 1000 Value Index ETF (IWD)** is down 6.8% since the Fed's last rate increase in July.

That implies roughly 18% upside potential ($11.2 + 6.8 = 18$) for large-cap value stocks between now and the end of next July, the one-year mark since the last hike.

If that's the case, why not use *TradeSmith's* trusty Screener tools to find some of the healthiest large-cap value stock ideas? Here's how.

(Note access to the tool is included with all levels of Ideas by TradeSmith, Trade360, TradeSmith Essentials, and TradeSmith Platinum. And, I have access to *TradeSmith* Platinum, so your settings may look different from mine.)

Be sure you're logged in to *TradeSmith Finance*. Then, click on the **Invest** menu and select the **Screener** tab. Then click on the green **+ Create New Screener** button.

Now, let's set up a super easy screen that zeros in on healthy value stocks – those that qualify for our *TradeSmith* Value strategy – that are also included in the large-cap Russell 1000 index. You can see which filters to select in the image below.

The screenshot shows the 'Create new screener' interface. Annotations include:

- A green arrow pointing to the 'Create new screener' header.
- A green circle around the '+ Manage Filters' button.
- A green arrow pointing to the 'Health Status' section, which includes 'Green Zone', 'Yellow Zone', and 'Red Zone' buttons.
- A green circle around the 'TradeSmith Strategies' section.
- A green arrow pointing to the 'Ideas Lab' dropdown menu.
- A green arrow pointing to the 'Value' strategy option, which is highlighted in light blue.
- A green circle around the 'Markets' section, which shows 'Russell 1000 (IWB)'.
- A green circle around the 'Sort results by' dropdown, which is set to 'Strategies'.
- A green circle around the 'DESC' dropdown, which is set to 'DESC'.
- A green arrow pointing down to the 'Run Screener' button.

And here are the specific filters I added:

- Health Status: **Green Zone and Yellow Zone**
- TradeSmith Strategies: Open **Ideas Lab** and select **Value**
- Markets: **Russell 1000 (IWB)**
- Display & Sort Results: Sort results by **Strategies** and **DESC** (descending)

This will give you the list of stocks that currently qualify for our *TradeSmith* Value strategy in rank order, with the best on top.

When I ran this screen yesterday, I got 57 results, which gives you plenty of potential stocks for further research. And remember, you can always narrow the list by adding more filters if you wish. Maybe add the Business Quality Score (BQS) or Free Cash Flow to find the highest-quality value stocks. Use your imagination.

Here are the top 10 stocks on my list.

[Saved Screeners](#) (57 results)

☐	Ticker	Rating	Health	VQ%	Billionaires	Strategies ▼	Volume	P/E Ratio	Trailing Divi...	Market Cap	Sector	Latest Close
☐	OXY Occid.Petrol Cor	Strong Bullish	► 2y+	40.28%	3	6	8,661,696	9.10	1.06%	\$55.7B	Energy	\$63.01
☐	WAB Westinghouse Air	Strong Bullish	► 1w+	21.92%	2	5	980,904	26.47	0.59%	\$19.9B	Industrials	\$111.29
☐	JEF Jeffer Finl Grp - Regis...	Bullish	► 4d	25.96%	3	5	1,412,379	25.62	3.44%	\$7.3B	Financials	\$34.87
☐	BXP Boston Prop REIT	Bearish	► 3d	26.03%	1	5	2,229,299	13.92	6.65%	\$9.2B	Real Estate	\$58.91
☐	HPE HP Enterprise	Bullish	► 6d	24.17%	3	4	6,825,608	19.42	3.01%	\$20.4B	Information Techno...	\$15.93
☐	FNF Fidelity Nat Fin	Strong Bullish	► 1w+	21.76%	1	4	1,695,720	22.53	4.20%	\$11.7B	Financials	\$42.82
☐	ARMK Aramark	Bearish	► 4d	24.72%	2	4	3,694,421	13.63	1.55%	\$7.4B	Consumer Discretio...	\$28.35
☐	AL Air Lease-A	Bearish	► 3d	29.02%		4	1,173,267	7.91	2.17%	\$4.1B	Industrials	\$36.83
☐	FAF Frst Amer Fincl	Bullish	► 3d	21.08%	1	4	602,800	24.57	3.76%	\$5.7B	Financials	\$55.60
☐	UNM Unum	Bullish	► 3d	26.83%	2	4	2,957,131	7.04	3.19%	\$8.5B	Financials	\$43.62

Note that many of the stocks that made the cut are from the market's best-performing sectors last week including financials, real estate, technology, and consumer discretionary. Again, these are the sectors and stocks you would expect to lead the market if the Fed really is done raising rates.

Mike Burnick's Bottom Line: Our *TradeSmith* Screener tool can rise to any occasion. Whenever you believe a market shift is occurring – whether a shift in sector leadership, investment style, or whatever – our Screener can instantly give you a qualified list of stocks to consider buying after further research.

Good investing,

Mike Burnick

Senior Analyst, *TradeSmith*

P.S. If you have any questions or concerns, please reach out to me at emailmikeburnick@tradesmith.com and include "Inside TradeSmith" in the subject line.