What Happens to Interest Rates During and After a Recession

A lot of people believe rates are headed higher for the foreseeable future. The FED has moved rates higher to battle inflation. The worry about rates going higher is that the economy will suffer and we will get a recession or worse. TPA believes it may be helpful to take a look a history. Below we look at what rates did 6 months, 1 year, 18 month and 2 years after a recession.

The results below show that either higher rates conquer inflation without a recession or the U.S. goes into a recession and that will eventually mean lower rates.

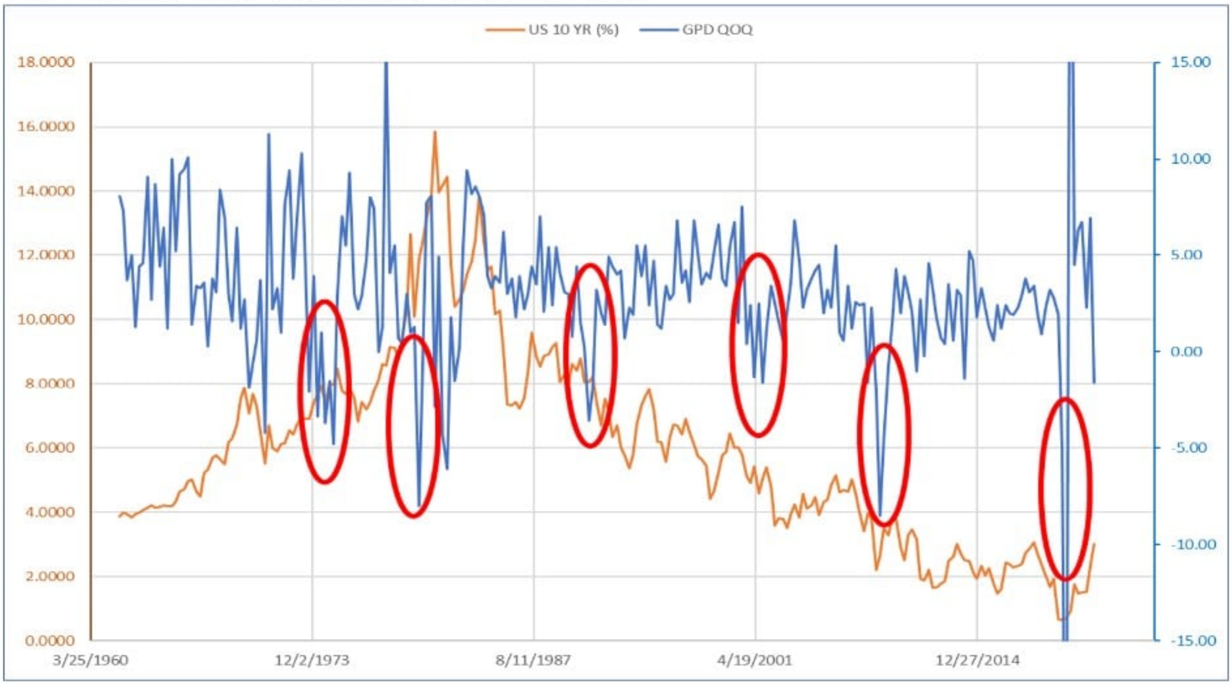
The average change in the 10-Year Rate 2 years after a U.S. recession is -0.33%. In other words, after a recession, sooner or later, rates decrease. This is somewhat backed up by the implied Fed Funds table which now shows that the implied Fed Funds rate starts to decline in 3/22/23; earlier than the historic average for the 10-Year.

The historic record seems to show that the FED will either tame inflation or they will have to surrender their rate increase strategy sometime in the next 1 to 2 years as the economy worsens due to rate hikes. Either way, the need and probability for ever-higher rates seems unlikely.

10 YEAR CHANGE AFTER A U.S. RECESSION

	Change in 10YR rates after U.S. Recession (%			
	6 months	1 year	18 months	2 years
AVERAGE	0.1933	0.0495	0.2748	-0.3359
HIGH	1.5444	1.1744	2.4181	-0.0418
LOW	-0.2806	-0.2453	-0.3044	-1.0000

GDP QUARTER OVER QUARTER AND THE U.S. 10 YEAR



U.S IMPLIED FED FUNDS RATE

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	1.75	Pricing Date	07/04/2022
Effective Rate	1.58	Cur. Imp. O/N Rate	1.582

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
07/27/2022	+2.830	+283.0%	+0.708	2.290	0.250
09/21/2022	+4.972	+214.2%	+1.243	2.825	0.250
11/02/2022	+6.383	+141.1%	+1.596	3.178	0.250
12/14/2022	+7.080	+69.7%	+1.770	3.352	0.250
02/01/2023	+7.340	+26.0%	+1.835	3.418	0.250
03/22/2023	+7.310	-3.0%	+1.828	3.410	0.250
05/03/2023	+6.989	-32.1%	+1.747	3.330	0.250
06/14/2023	+6.507	-48.2%	+1.627	3.209	0.250
07/26/2023	+5.850	-65.7%	+1.463	3.045	0.250
09/20/2023	+5.530	-32.0%	+1.383	2.965	0.250
11/01/2023	+4.968	-56.2%	+1.242	2.824	0.250
12/13/2023	+4.700	-26.8%	+1.175	2.758	0.250
01/31/2024	+4.370	-33.0%	+1.093	2.675	0.250

Implied Overnight Rate & Number of Hikes/Cuts