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The Fed Put

On Monday, 19 October 1987, the US stock market experienced its worst one-day crash in history, with the Dow Jones Industrial Average (DJIA) plummeting **22.6%**. This event, known as “Black Monday,” triggered panic across global markets, but despite the intensity of the crash, it turned out to be relatively short-lived. The US Federal Reserve, acted swiftly to reassure markets by providing liquidity and cutting interest rates.

By 1989, markets had largely recovered, and a powerful economic boom followed in the 1990s. However, a more heated market in 1998 saw the collapse of the extremely leveraged hedge fund manager Long-Term Capital Management. During this crisis, which largely affected Asia, the S&P 500 fell **19.3%** between July and October 1998. Once again, the Federal Reserve responded with rate cuts, alleviating immediate financial stress but setting the stage for speculative excesses that would fuel the next bubble.

History tells us that these liquidity “injections” provide a type of “safety net” for owners of assets, preventing a deeper economic collapse. The term “Greenspan put” became widely used during this 1998 crash, referring to the monetary policy response to support markets by long standing Federal Reserve Chairman, Alan Greenspan.

By the late 1990s, the dot-com bubble had begun to inflate. When it burst in 2000, the **S&P 500** dropped **49.1%** from its March 2000 peak to its October 2002 trough, while the tech-heavy **NASDAQ** collapsed by an even more severe **78%**. The Fed’s response was again a steep cut in interest rates to 1%.

In time, this cheaper money and more accommodative financial conditions led to another bubble - this time in US housing and more specifically in mortgage-backed securities. When this bubble burst in 2007-2008, it triggered the Global Financial Crisis. The **S&P 500** plummeted by **56.8%** from its October 2007 peak to the March 2009 trough. To prevent a total economic collapse, the Federal Reserve undertook unprecedented actions, not only cutting interest rates from 5.25% to near 0%, but also introduced Quantitative Easing (QE), which involved buying securities to inject liquidity into the financial system and support bank balance sheets.

The same script played out during the 2020 pandemic. As markets crashed, the **S&P 500** fell **33.9%** from its February 2020 peak to its March 2020 low. Once again, the Fed launched massive QE and slashed interest rates to 0%, lifting asset prices and ensuring a fairly rapid recovery. This – bringing us to late 2024 with huge price gains across global asset markets, especially in the US.

Conclusion

Looking back, while each crisis caused sharp and significant market declines, the Fed’s consistent interventions helped limit their duration. The implicit “Fed Put” has driven up asset valuations over time, reinforcing investor confidence. Given this pattern, another sharp decline in asset prices is likely inevitable but history, and the structure of the global financial system, give us a clear indication of the Fed’s likely response.

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