BINANCE RESEARCH

The Fed, Interest Rates, and the Economy: A Primer

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01 / Key Takeaways

- On 18th September 2024, the U.S. Federal Reserve ("Fed") cut the target range for the federal funds rate by 0.5%. This lowering of the benchmark U.S. interest rate represented the first cut since March 2020, when the Fed cut rates in response to the Covid-19 pandemic. The September 2024 cut marked the start of the Fed's rate cutting cycle and was followed by another 0.25% cut in their November meeting.

- The Fed pursues a dual mandate to promote maximum employment and price stability i.e. low unemployment and inflation not exceeding 2%. Inflation exceeded 9% during mid-2022, which led the Fed on an aggressive rate hiking regime where they increased rates to their highest level in over 20 years. With inflation having slowly cooled over the last year, the Fed is now at a place where they can embark upon a rate cutting cycle. As of now, market expectations are of 1-2% in cuts over 2025, with the probability of a 0.25% cut in December at roughly 62%.

- A basic concept to grasp is that interest rates are the price of money, thus raising rates makes money more expensive, while cutting rates makes money cheaper. The recent rate cutting environment has two major stimulative effects: (i) the market can borrow money more cheaply and the cost of existing debt is cheaper; (ii) as the government risk-free rate is lower, market participants have to look at other assets to increase their rate of return.

- Other than interest rates, there are various other major economic variables to consider. These include inflation, unemployment, broader monetary policy, corporate earnings, regulatory landscape, and geopolitical stability.

- Interest rates in the U.S. have structurally declined over the last 50 years, from the 8-10% of the 1980s, to the 0% era of the 2010s, to the recent 5%+ environment.

- Using the S&P 500 as a gauge for U.S. equities, we can observe that it has generally risen following interest rate cuts (on a 3-month, 6-month, and 1-year time horizon). There have been a few exceptions, notably during periods when the U.S. economy was in recession. However, these were only short-run deviations from a structural rise in U.S. equities over the last 50 years.

- Commodities and interest rates have a more complex relationship, with impact via the cost of inventories, the lack of yield on commodities, and exchange rate considerations (given many major commodities are priced in US$). The link between commodities and inflation is more pronounced and they are often seen as a leading indicator for inflation. Commodities are also commonly used as inflation hedges.

- Fixed income instruments like bonds have a very clear inverse relationship with interest rates, whereby bond prices fall as interest rates rise.

- Crypto has only been involved in two sets of rate cuts (prior to 2024). Absent short-term variation, crypto has performed extremely well after cuts, particularly on a 12-month time horizon, recording 537% growth one year after the March 2020 cut.

02 / Introduction

On 18th September 2024, the U.S. Federal Reserve ("Fed") cut the target range for the federal funds rate by 0.5% to 4.75 - 5.00%. This lowering of the benchmark U.S. interest rate represented the first cut since March 2020 when the Fed cut rates in response to the Covid-19 pandemic. After a period of aggressively hiking rates between March 2022 and July 2023, in order to combat rising inflation, the Fed held rates steady for eight consecutive meetings before the September 2024 cut. This marked the start of the Fed's rate cutting cycle and was followed by another 0.25% cut in their November meeting.

The Fed pursues a dual mandate to promote maximum employment and price stability i.e. low unemployment and inflation not exceeding 2%. Following the pandemic, prices rose rapidly, with inflation exceeding 9% during mid-2022. This led the Fed on an aggressive rate hiking regime where they increased rates to their highest level in over 20 years. After hiking the target rate from 0 - 0.25% (where it sat during the pandemic), all the way to 5.25 - 5.5%, inflation slowly cooled, which allowed for the Fed to make their recent cut. As of now, market expectations are of 1-1.5% in cuts over 2025, including a **~62% probability of a 0.25% cut in December (versus ~38% chance of no change)**.

The relationship between inflation, rate cuts, and the broader economy (including asset performance) is an interesting one and something that all market participants should be aware of. In this report, we start by talking about the rate cuts and other key economic variables to consider, before analyzing asset performance in previous Fed cutting cycles.

Figure 1: Central banks across the world have started cutting rates in 2024

Rate cuts in basis points i.e. -25bps = 0.25% cut	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Total
Bank of Canada				-25	-25		-25	-50		-125
Sweden National Bank			-25			-25	-25		-50	-125
Reserve Bank of New Zealand						-25		-50	-25	-100
European Central Bank				-25			-25	-25		-75
Swiss National Bank	-25			-25			-25			-75
Central Bank of the United Arab Emirates							-50		-25	-75
US Federal Reserve							-50		-25	-75
China (1Y MLF)						-20	-30			-50
Bank of England						-25			-25	-50
China (7D Reverse Repo)					-10		-20			-30
Bank of Korea								-25		-25
Bank of Thailand								-25		-25
Bank of Japan	+20				+15					+35

Source: Central bank websites, Binance Research

03 / Economics 101

"...interest rates power everything in the economic universe..."

– Warren Buffet at the Berkshire Hathaway Annual Meeting in 2013

The Simple Interest Rate Formula

The most basic concept to grasp when considering this topic is that **interest rates are the price of money**. Therefore, the changing of the interest rate is essentially a manipulation of the price of money. **Raising rates makes money more expensive, while cutting rates makes money cheaper.**

So, in our current situation where the Fed (and multiple other central banks around the world) are cutting rates, this essentially translates to the **price of money becoming cheaper around the world**. Ceteris paribus (i.e. all else being equal), this has two major effects:

1. **Effect on debt and borrowing**: Institutions, businesses, and retail, can borrow money more cheaply. This should stimulate the economy and encourage spending and investment, which should be generally good for assets. Additionally, rate cuts lower the cost of existing debt. This may have a similar stimulating effect on the economy.

2. **Effect on yield**: As the risk-free government rate is lower, market participants have to look at other assets to increase their rate of return. Naturally, this is a tailwind for assets with higher appreciation potential, whether that may be higher yielding bonds, equities, or crypto.

While this is mechanically true, as with all economic reasoning, there are multiple other factors and variables that impact the situation.

3.1 Major Economic Variables to Consider

1. Inflation

The hottest macro buzzword of the last few years, **inflation refers to the general increase in prices over a given period of time.** Another way to look at this is by considering inflation to be the **fall in the purchasing power of money** over a period of time.

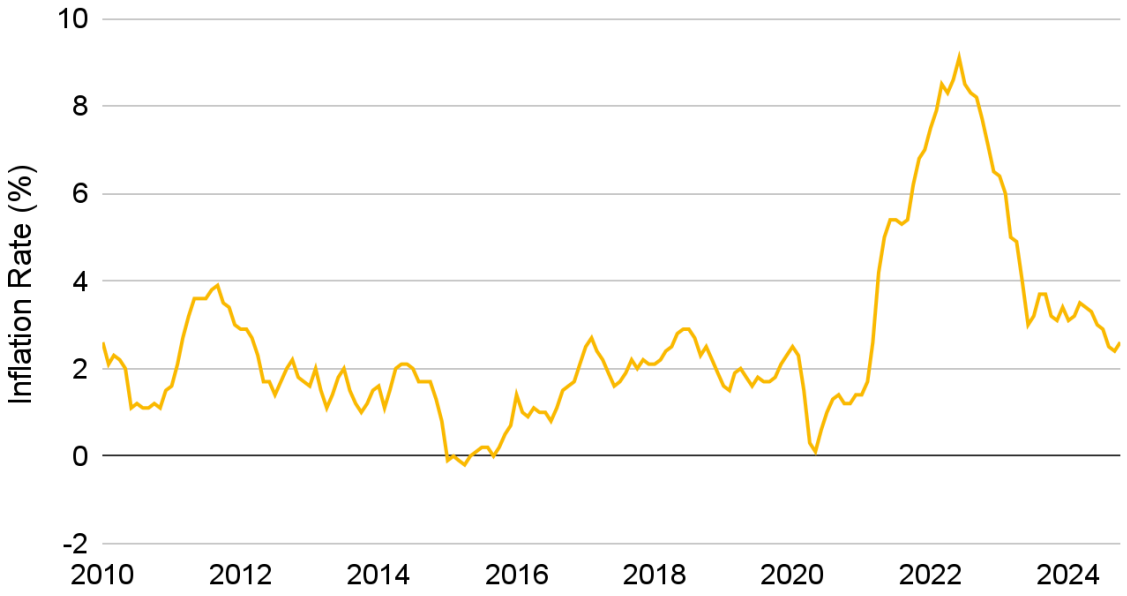
As we previously stated, the Fed pursues a dual mandate to promote maximum employment and price stability. Thus, managing inflation is a key goal for them, and this has been the primary reason why the Fed hiked rates between 2022 and 2024. As inflation

has cooled, the Fed and other central banks have slowly embarked upon rate cutting cycles. This is the basic relationship between interest rates and inflation. When inflation is high, central banks increase rates to discourage spending and lower inflation, and vice versa.

We should note that the **inflation target** for the Fed is 2%. This is seen as the **optimal level of inflation as it provides a safety margin against deflation** (a general decrease in prices), which is largely undesirable and can lead to a weaker economy as households & businesses are incentivized to delay spending and investment in such an environment. This has cascading effects for the health of an economy and can create a cycle of ever-lower expected inflation and actual inflation.

A 2% inflation target also allows for interest rates to remain a viable tool for the Fed to stimulate the economy. For example, when inflation expectations fall, interest rates tend to follow. In turn, there is less scope to cut interest rates if the economy falls into a downturn. This is undesirable as it can make a key monetary policy tool ineffective. We should also note that most central banks around the world have a goal to maintain price stability, and many others also target the 2% level, including the European Central Bank ("ECB"), Bank of England, Bank of Japan, and others.

Figure 2: US inflation averaged over 8% in 2022 and was a key reason why the Fed embarked upon its most recent rate hiking regime



Source: U.S. Bureau of Labour Statistics, Binance Research, as of October 2024

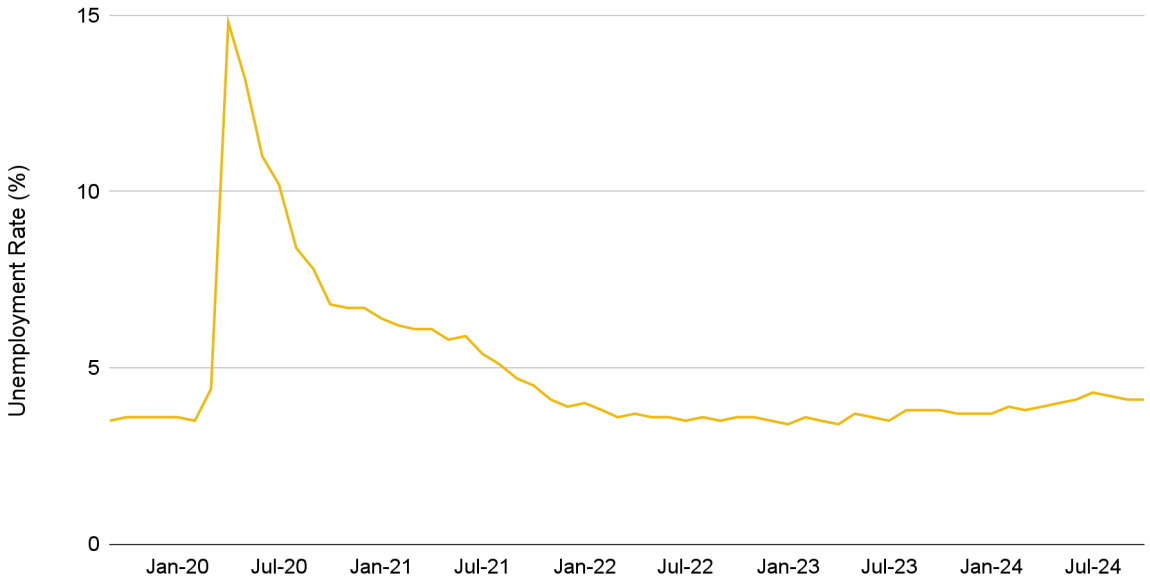
2. Unemployment

The second part of the Fed's dual mandate, unemployment, is another key economic variable to keep an eye on. Rather simply, the more of the working population that is unemployed, the worse for the economy, and thus asset prices.

While the Fed has primarily been focused on managing inflation over the last couple of years, as inflation has cooled down, the focus is now turning more towards unemployment. **The U.S. unemployment rate was at 4.1% in October, a number that is not particularly high, although it has slowly been edging upwards from 2023 where the average was closer to 3.8%**. The Fed does not have an explicit target for unemployment, but rather looks at the situation from a holistic perspective and aims for a fairly steady number (around the 4% mark over the last three years).

One of the key measures of U.S. employment that the market monitors is "**nonfarm payrolls**". This **represents the total number of paid workers in the U.S.**, excluding farm workers, military, non-profit employees, and private household employees. The changes in the number of jobs added or lost each month are reported in the nonfarm payrolls report on the first Friday of every month. Job growth typically signals good economic health, while the opposite is true for job losses. **A strong report with job gains above expectations, decreasing unemployment, and steady or rising wage growth, can be a key factor for market performance in the short term,** and the release typically leads to volatility across major asset markets.

Figure 3: US unemployment has largely eased off following the Covid-19 shock, although it has started to slightly creep up in 2024



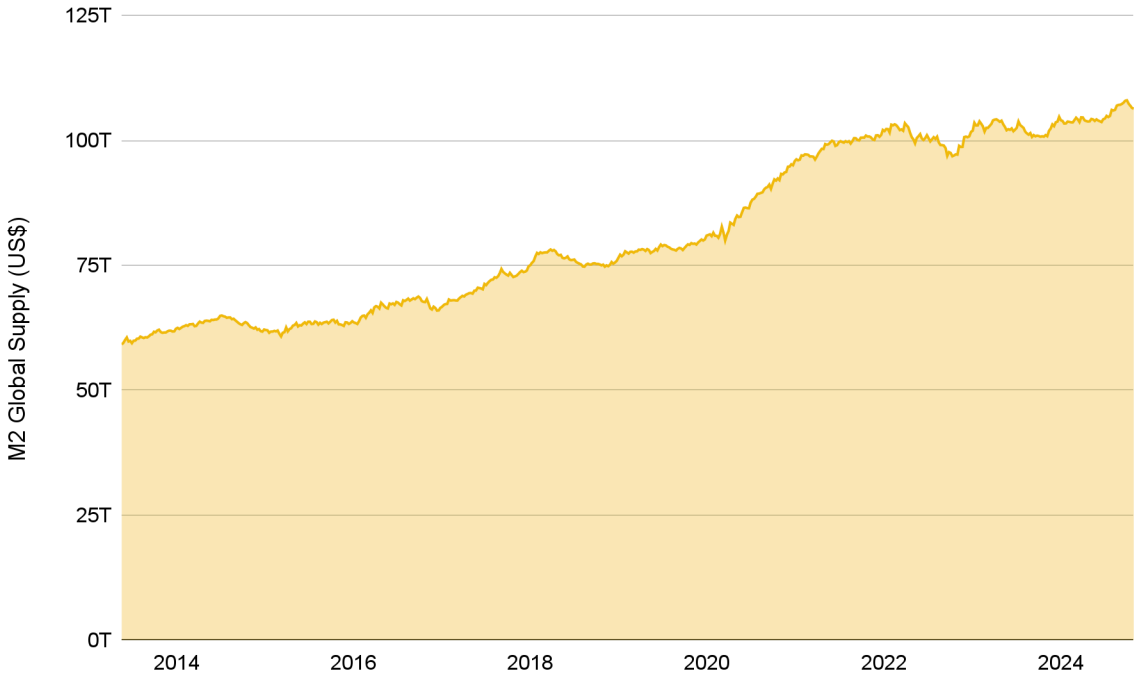
Source: Federal Reserve Economic Data ("FRED"), Binance Research, as of October 2024

3. Broader Monetary Policy

While interest rates are a key monetary policy tool, we also need to consider alternative methods that central banks use to inject liquidity into the economy. One major strategy is called **open market operations**, which is essentially when the central bank buys or sells government bonds in order to inject or pull money out of the economy. A particular type of open market operation is **quantitative easing ("QE")**, where the central bank conducts large-scale purchases of bonds in order to inject liquidity into the system. Operations of this nature raise the price of financial assets like bonds, while also increasing the money supply in the economy, thereby providing a liquidity injection. This also has the effect of encouraging banks to lend out more money, which in itself can lead to a stronger economy as businesses and consumers can access more credit and build enterprises, invest, and spend.

Another monetary policy tool that central banks use is **lowering the reserve requirement for banks**. This essentially means that banks can keep lower reserves and lend out more money. This has the direct effect of increasing the amount of credit in the economy, and also the ease of obtaining that credit. This is generally a positive development for businesses and consumers who can more easily obtain credit in order to invest, build businesses, or simply spend money and drive economic growth. The People's Bank of China ("PBOC") has recently been using **various tools**, including the lowering of the bank reserve requirements, in order to stimulate their economy.

Figure 4: Total global money supply, which is majorly impacted by monetary policy, including quantitative easing, has increased by over 30% since 2020



Source: BGeometrics, Binance Research, as of November 2024

4. Corporate Earnings

Publicly traded businesses **in the U.S. are legally required to report earnings on a quarterly basis**, and it is usually the same around the world (although some might report biannually). These reports have the important function of helping the market make better investment decisions through providing transparency into the business. They allow for regular financial evaluation of a company and enable comparisons between peers.

There are two major effects of this on asset prices. Firstly, there is the **direct impact upon the stock prices of companies which report strong earnings**. This is relatively obvious as stronger earnings typically increase investor confidence and can lead to buying. The other indirect effect is on general investor sentiment in the market. If a number of major companies report strong earnings growth in a quarter, this **generally improves market sentiment and supports a positive view of the economy and business conditions.** This can create a very direct tailwind for assets, which may not be directly related to the companies that are reporting earnings.

There is also the so-called **"wealth effect"** whereby when stock prices rise following strong earnings, shareholders feel wealthier and may choose to increase their investments or diversify, further driving economic growth. This is a key reason why monitoring quarterly earnings, especially those of major corporations, can be a useful endeavor when evaluating the broader market and how macro forces might be affecting things.

5. Regulatory Landscape

This is perhaps one of the most important factors to take into account, especially for the crypto community. Thinking about the U.S., there have been some positive moves in the last year, including the approval and subsequent launch of the spot Bitcoin and Ether ETFs. The launch of these products signified material progress in at least part of the crypto world.

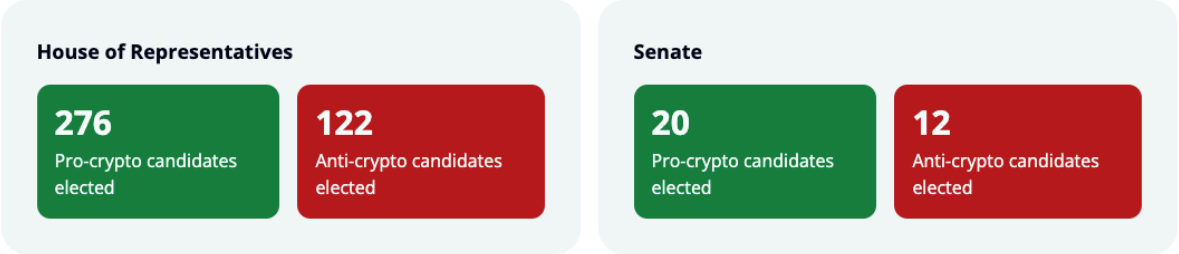
On the other hand, the U.S. Securities and Exchange Commission ("SEC") continued to pursue a "regulation by enforcement" strategy throughout the last few years, and has numerous lawsuits pending against major crypto firms. This messaging from the current U.S. regulatory regime had (until recently) left a dark cloud over some tokens, and potentially impacted their valuation as a result. In addition, many crypto teams had been forced to move to other jurisdictions where there is regulatory clarity.

However, the **results of the recent U.S. Presidential election are being seen as encouraging**. With the successful campaign of a pro-crypto Donald Trump (who has multiple NFT collections and a DeFi project), and a record number of pro-crypto officials across the House of Representatives and Senate, regulation developments can be expected in 2025. The Republicans have discussed an overhaul of the SEC, and we have already seen the resignation of certain SEC figures, including Gary Gensler (who will step down in January) and former enforcement chief, Gurbir Grewal.

The Republicans have also signaled interest in establishing a more thorough regulatory regime for crypto assets. Their **path to enact legislation will be somewhat easier given**

the "Republican sweep" i.e. winning the Presidency, and majority control in both the House of Representatives and Congress.

Figure 5: The recent U.S. Presidential election saw a significant number of pro-crypto candidates being elected across both chambers of Congress



Source: standwithcrypto.org

6. Geopolitical Stability

A more qualitative variable, geopolitical stability is an important factor to take into account when considering asset prices and economic performance. While the general geopolitical climate has been relatively stable in the U.S. in recent years, this is not necessarily the case in other countries, where this factor is a more meaningful indicator of potential asset appreciation.

As a general rule of thumb, **geopolitical issues, especially conflict, tends to lead to some degree of inflation**. This is often **import-driven inflation**, whereby some imports might get more expensive due to tense international relations, tariffs, sanctions, or supply chain issues, among other reasons. Physical damage in a nation can also create inflation as it can lead to higher import costs for example. As inflation rises, the central bank can be forced to increase interest rates in order to control it. And as we know from **earlier**, increasing the price of money is a natural headwind for many asset prices.

7. Others

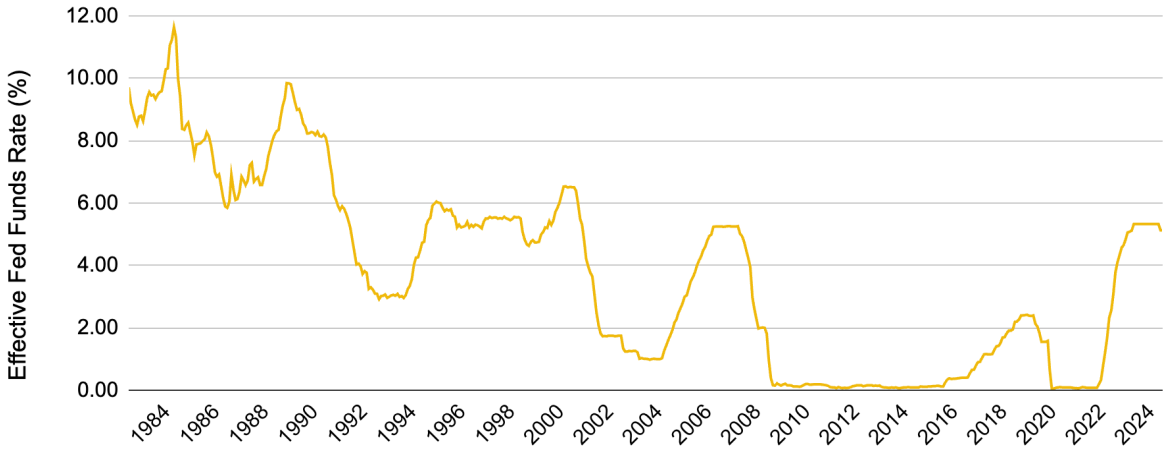
Note that there are literally thousands of other indicators that are tracked and it is very easy to drown in this world of macro variables. There are analysts in the market looking at everything from the trade balance to new home sales to wage growth. While many of these have their place in detailed analysis, one should be careful not to get lost in the numbers.

Instead, we may look at some key indicators to have a directional idea of where various economies are, and use other more specialist numbers when doing deeper research. On a high level, the combination of interest rates, inflation, regulatory conditions, and unemployment may give us a relatively good idea of the health of an economy.

04 / History of Fed Rate Cuts

In this section, we will take a look at previous rate cuts and how different assets have reacted.

Figure 6: The Effective Fed Funds Rate ("EFFR") has trended generally downwards over the last few decades. The EFFR is the actual observable rate in the market, and generally follows the Fed's official target range closely.



Source: Federal Reserve Economic Data ("FRED"), Binance Research, as of 26 Oct 2024

As we can see in Figure 6 above, the Fed has embarked upon a number of rate cut cycles over the last 50 years. This includes the cutting cycles of the 1980s, which followed Paul Volcker's historical inflation-related hikes, the recession of 1990, the dot-com bubble in 2000, the 2008 financial crisis, and the Covid-19 pandemic. One interesting factor to observe perhaps is that, historically speaking, **rates have generally trended lower over the 50 years**. We are far away from the 8-10% rates of the 1980s.

4.1 How Have Assets Reacted?

Perhaps a good way to start this chapter is by taking a quote from Warren Buffett of Berkshire Hathaway:

"...interest rates are to asset prices, you know, sort of like gravity is to the apple. And when there are very low interest rates, there's a very small gravitational pull on asset prices."

– Warren Buffet at the Berkshire Hathaway Annual Meeting in 2013

1. Equities

Overview

S&P 500: The S&P 500 (often referred to as simply "the S&P") covers 500 of the largest publicly traded companies in the U.S. across a variety of industries. Given its broad range, it is generally considered to be a comprehensive gauge of the U.S. equity market.

Relationship: While the assumption is that interest rates have a purely inverse relationship with equity prices, the relationship is evidently more complex. As we can see in Figure 7, although the S&P has risen in price following the majority of the major rate cutting cycles over the last 40 years, there have been notable recent exceptions, including in 2001 and 2007.

The reasons behind the generally inverse relationship between stocks and interest rates include:

(a) The points we highlighted above in **The Simple Interest Rate Formula**. Specifically, the fact that **lower interest rates mean lower cost of borrowing and a lower existing debt burden** for individuals and businesses. This can translate into more potential investment in stocks, while also benefiting businesses with their financial structure, potentially increasing growth and making their stocks more attractive. Lower rates also means that the government risk-free rate is lower, thereby making the higher potential return from equities more attractive to investors.

(b) From a fundamental trading perspective, we can **consider that stock prices are being valued by the future cash flows of the related business.** In valuation models, the future cash flows are traditionally discounted by the risk-free rate. With a lower risk-free rate, the future cash flows of a given business will be discounted by a small number and be valued higher, which can serve as a potential signal to investors and increase the stock price.

The fact that this simple relationship does not always hold speaks to the fact that sometimes, **the reason for the rate cut may be more impactful than the cut itself**. For

instance, it is notable that both periods of negative stock returns highlighted in Figure 7 came when the first rate cut was during a **recessionary period** in the economy. To this end, our previous section on **major economic variables to consider**, becomes of greater importance, as other variables become greater determinants of equity market performance.

Figure 7: While the S&P has generally risen following rate cuts, there have been exceptions in recent history

First cut	S&P 500 Return After First Cut		
	3-month	6-month	12-month
September 1984	1%	9%	14%
November 1987	2%	6%	14%
June 1989	9%	9%	17%
July 1995	6%	13%	22%
September 1998	20%	27%	23%
January 2001	-18%	-8%	-12%
September 2007	-3%	-11%	-18%
July 2019	2%	9%	12%
September 2024	?		

Source: Goldman Sachs Investment Research, Binance Research

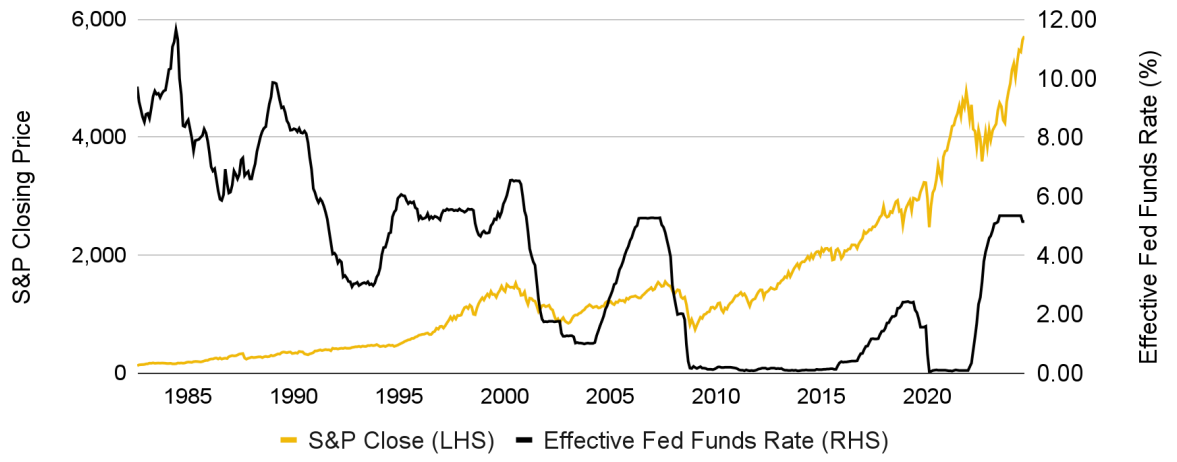
Analysis

Figure 8 plots the S&P closing price against the effective Fed Funds rate over the last 40 years, encompassing eight distinct rate cutting cycles. This extends from the cuts of 1984, to the global currency crisis of 1998, to the dot-com bubble burst / September 11 response in 2001, to the most recent cuts of 2019 and 2020.

While Figure 7 gave us a finer view into U.S. equity market performance following major rate cuts, the higher level picture is also interesting. For instance, note that while there is some notable inverse correlation of the last 20 years, this relationship in the short-term is also somewhat ambiguous and can peak and trough at different times.

However, looking at the high level picture, it is extremely evident that the **S&P 500 has generally risen over the last 40 years, while rates have demonstrated a structural decline**. In a multi-decade time frame, this might be seen as evidence backing Warren Buffett's earlier referenced claim comparing the force of interest rates with that of gravity towards asset prices.

Figure 8: On an overall basis, the S&P has generally risen over the last 40 years, while interest rates have have structurally declined



Source: Federal Reserve Economic Data ("FRED"), WSJ Markets, Binance Research, as of 21 Nov 2024

2. Commodities

Overview

Bloomberg Commodity Index ("BCI"): The BCI assesses the overall performance of a diversified basket of 23 commodities, including energy, metals, agriculture, and livestock. Each sector is weighted according to its market significance, with energy holding the largest weight.

The index tracks price movements across these sectors, providing a snapshot of the broader commodities market. A higher BCI reading signals strong commodity performance, often linked to economic growth or inflation, while a lower reading reflects weaker market conditions.

The Effect Of Inflation & Interest Rates On Commodity Prices: Interest rates influence commodity prices indirectly, through impact on cost of carry, speculation, and the exchange rate. Inflation, on the other hand, is more intrinsically linked to commodities, with commodity prices often serving as leading indicators for inflation.

(a) **Interest rate cuts** have a link to commodities due to the impact on the cost of carry. Specifically, **higher interest rates increase the cost of holding inventories, as the opportunity cost of tying up capital in commodities becomes more expensive**. This reduction in demand for inventories exerts downward pressure on commodity prices, as businesses are less willing to accumulate raw materials when borrowing costs are higher. Conversely, when interest rates are cut, the cost of carry decreases, making it more attractive for businesses to hold and invest in inventories.

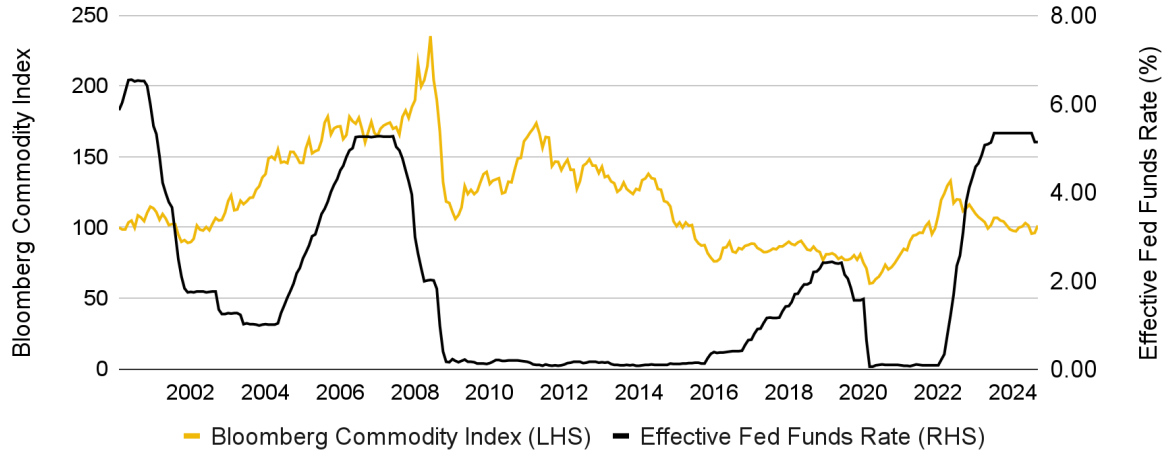
Higher rates may also encourage investors to move towards interest-bearing assets, and away from commodities (which do not accumulate interest). Lower

rates can have the opposite effect.

The fact that **many major commodities are priced in U.S. Dollars also has a notable impact**, as changes in interest rates affect the value of the dollar. Higher rates may lead to a stronger dollar, which can make commodities more expensive for foreign buyers, potentially reducing demand and thus prices.

However, commodities are non-financial assets and thus behave in a more dynamic fashion than other instruments such as equities and bonds. Their prices are often interrelated with other key economic variables like growth expectations, and geopolitics. This is perhaps one reason why interest rates and commodity prices show a mixed relationship when looking at the raw data.

Figure 9: The relationship between commodities and interest rates is complex

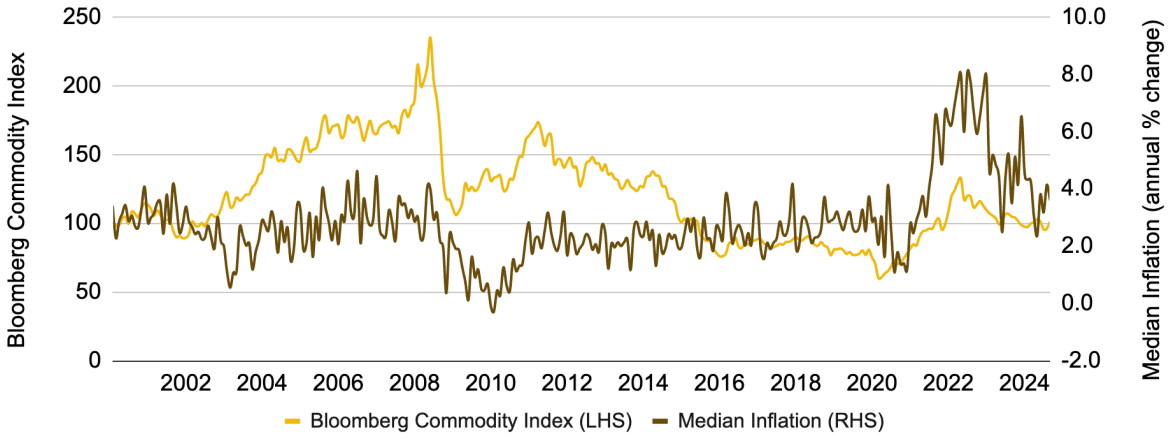


Source: Federal Reserve Economic Data ("FRED"), WSJ Markets, Binance Research, as of 25 Nov 2024

(b) Inflation, on the other hand, has a more direct and pronounced relationship with commodity prices. **Commodities are often seen as a leading indicator of inflation**. As commodities are fundamental parts of the economy and consumed in manufacturing and construction, rising commodity prices can signal inflationary pressures in the wider economy. We can see evidence of this in Figure 10, where commodity prices often start rising ahead of inflation.

Additionally, **commodities are often seen as a hedge against inflation** because of their intrinsic physical value and real-life use cases. As inflation erodes the purchasing power of currency, demand for tangible assets like commodities often increases, as investors seek to preserve value. This means that rises in inflation are often accompanied by rising commodity prices.

Figure 10: On the other hand, the relationship between commodities and inflation is far more pronounced



Source: Federal Reserve Economic Data ("FRED"), WSJ Markets, Binance Research, as of 25 Nov 2024

Analysis

From 2009 to 2020, commodity prices remained subdued, driven by low inflation and stable interest rates. However, in the past 4 years, inflationary pressures and rising demand have led to a significant increase in commodity price movements.

Figure 9 reveals that the **2008 global financial crisis caused a sharp decline in commodity prices**, driven by the collapse in demand and economic contraction. Interest rate cuts were swift, but their effect was tempered by an overwhelming global liquidity crunch and widespread uncertainty, which delayed the positive effects on commodity prices.

During the **COVID-19 pandemic in 2020, despite significant global uncertainty, commodity prices showed a less pronounced drop**. This was due to the rapid and unprecedented fiscal response globally, which provided immediate liquidity and recovery in some sectors, mitigating the sharp declines seen in other periods. Following aggressive rate cuts across the globe, commodity prices started to ascend in 2021.

In **2022, commodities experienced a significant resurgence as inflationary pressures took hold**. Thus, we can observe how the combination of rate cutting and inflation created a resurgence in commodity prices, highlighting the dynamic and multi-faceted nature of this asset class. **Now, as we head into another rate cutting cycle, albeit one which is accompanied by relatively low inflation, it will be interesting to see which way commodity prices go.**

3. Bonds

Overview

Perhaps one of the most famous relationships across finance, **bond prices and interest rates have a very observable inverse relationship**. Recall, a bond is a fixed income instrument i.e., it pays a fixed rate of interest every year until it matures. The most basic form of a bond is a **government bond**, i.e., an instrument that the government issues to borrow money. Government bonds in the U.S. (i.e., Treasuries) are typically seen as risk-free, as the government has the ability to print money and is therefore highly unlikely to default (as opposed to corporate bonds, which are issued by companies).

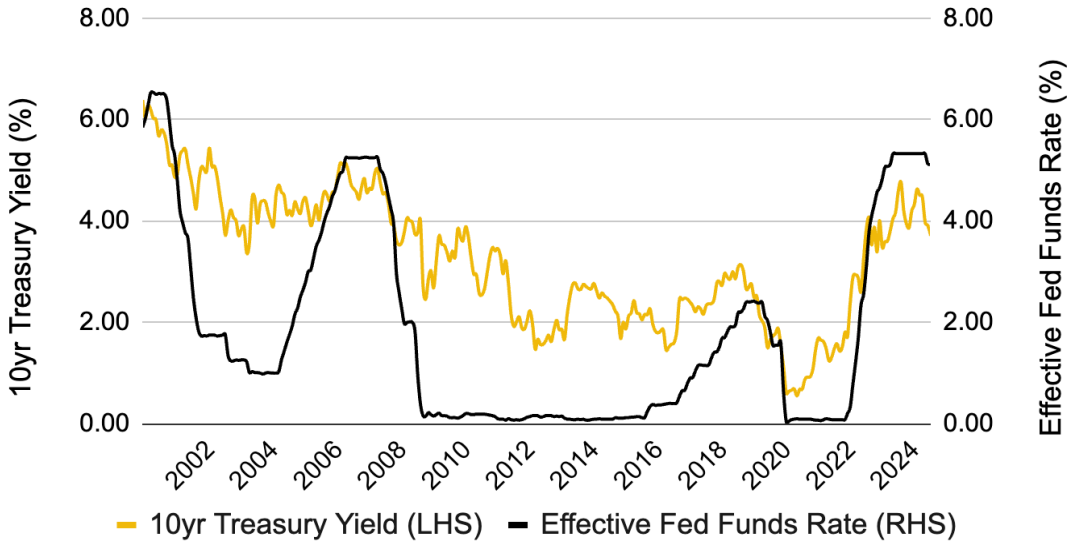
The **yield of a bond is calculated by dividing its annual interest payment by its current price**. For example, assume a 10-year bond is priced at US$100 on the day of issuance and pays a 10% coupon every year. This would give it a 10% yield. If the chances of a bond default become higher, and its price decreases, the yield of the bond will mechanically increase i.e., dividing 10% by a figure lower than US$100.

The coupon for any given bond is derived from the official government interest rate, with Treasuries paying slightly above the Fed Funds rate, while riskier corporates may pay significantly more. This means that when interest rates rise, newer bonds are issued with higher coupons. Consequently, existing bonds with lower yields become less attractive. Therefore, the price of the bond must decrease, in order to mechanically increase its yield, to compete with new bonds. **This forms the basis of the inverse relationship between bond prices and interest rates, which can also be framed as the direct correlation between bond yields and interest rates.**

Analysis

The evidence is clear and this is not a relationship that requires much analysis. **Bond prices fall when interest rates rise, and vice versa**. This has happened across history, and will continue due to the very structure of fixed income instruments like bonds.

Figure 11: 10-year U.S. Treasury yield is correlated with the Effective Fed Funds Rate



Source: Federal Reserve Economic Data ("FRED"), Binance Research, as of 25 Nov 2024

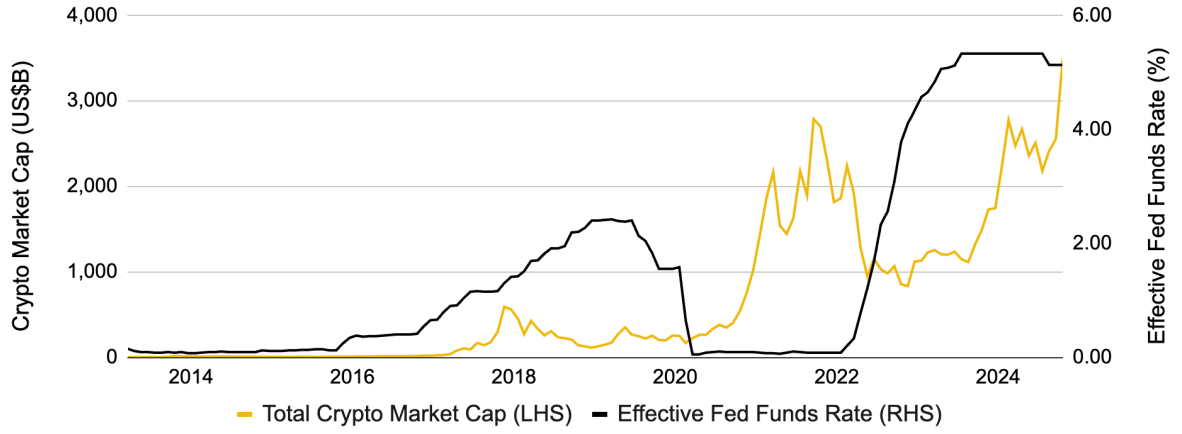
4. Crypto

Overview

Prior to the latest round of rate cuts in September and November 2024, the **crypto markets have only been involved in two sets of rate cuts, occurring in the second half of 2019 and March 2020.** The three 0.25% cuts between July and August 2019 were part of the Fed's "mid-cycle adjustment" and came in the midst of strained trade relations between the US and China. The 0.5% and 1% cuts that came in March 2020 were a result of emergency meetings conducted in response to the pandemic.

Many in the market consider crypto to be similar to equities, and therefore expect crypto to have a generally similar relationship to interest rates. I.e., as rates fall, crypto should rise, and vice versa.

Figure 12: Total crypto market cap has demonstrated a structural increase in its relatively short history, particularly in the last four years



Source: CoinMarketCap, Binance Research, as of 25 Nov 2024

Analysis

As we can see in Figures 12 and 13, the comparison of crypto and equities in terms of post-rate cut performance has some value. **Both equities and crypto have largely performed well following rate cuts, with some variation** (as we can see on the 3-month and 6-month horizon following the July 2019 cut).

However, what is very interesting is **how strong crypto performance has been, particularly on a 12-month horizon**. The 530%+ growth one year after the March 2020 cut is particularly emblematic of this.

We should however **note the importance of other economic variables, particularly, broader monetary policy**. For example, following the March 2020 cut, central banks across the world embarked upon a liquidity injection cycle and many even gave out stimulus checks directly to the population. This undoubtedly had an effect on the growth of the crypto market. We should also note the relatively small size of the crypto market, which makes stronger growth mechanically easier. For example, the **S&P 500 market cap** is over US$45T, while total **crypto market cap** is around US$3.2T.

Figure 13: While the data set is limited, crypto has largely performed extremely well after rate cuts, particularly on a 12-month time horizon

First cut	Total Crypto Market Cap Return After First Cut		
	3-month	6-month	12-month
July 2019	-5%	-4%	25%
March 2020	17%	65%	537%
September 2024	?		

Source: CoinMarketCap, Binance Research

05 / Closing Thoughts

As we highlighted in **Figure 1**, central banks across the world have started cutting rates in 2024. In fact, it was recently **highlighted** that September 2024 was the 4th largest month for central bank policy rate cuts this century, with 26 cuts. This level of policy making has continued through October and November, with central banks across the world continuing their rate cutting cycles.

As we have seen in this report, although rate cuts have a nuanced relationship with certain asset classes, the big picture story is clear. **Rate cuts reduce the price of money and generally stimulate the economy**. While the importance of other major economic indicators cannot be understated, rate cuts are an integral part of the story.

With global inflation having cooled off from the highs of 2022, many major central banks, including the U.S. Fed, are expected to continue cutting into 2025 and beyond. All eyes on inflation, unemployment, and geopolitics as we head into the next era of interest rates.

06 / References

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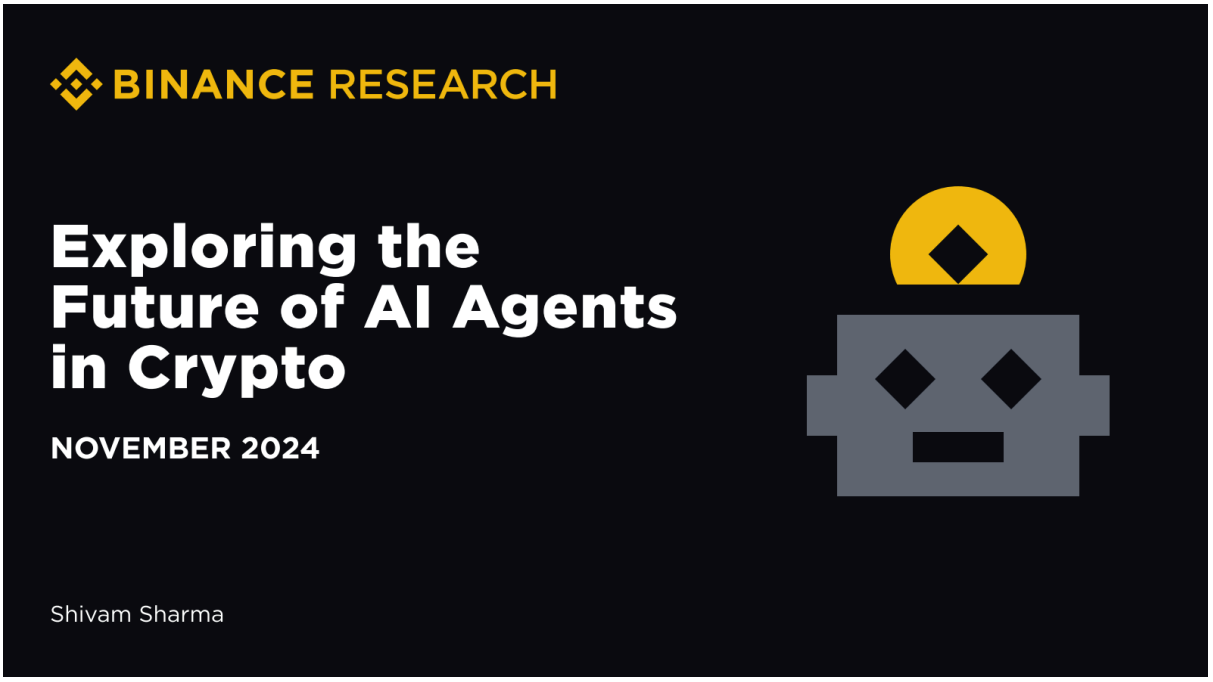
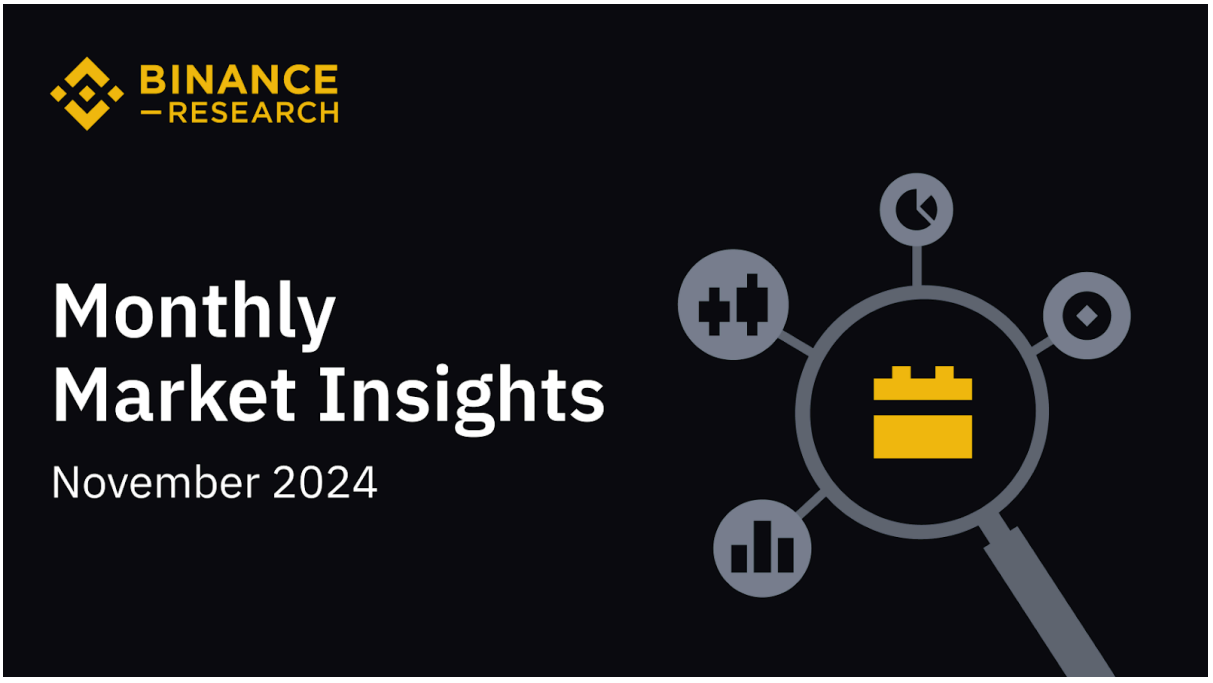
07 / New Binance Research Reports

Exploring the Future of AI Agents in Crypto Link
Exploring the convergence between AI agents and crypto, discussing origins, major projects, challenges, and future implications.



Monthly Market Insights: November Link
A summary of the most important market developments, interesting charts and upcoming events in November.



About Binance Research

Binance Research is the research arm of Binance, the world's leading cryptocurrency exchange. The team is committed to delivering objective, independent, and comprehensive analysis and aims to be the thought leader in the crypto space. Our analysts publish insightful thought pieces regularly on topics related but not limited to, the crypto ecosystem, blockchain technologies, and the latest market themes.

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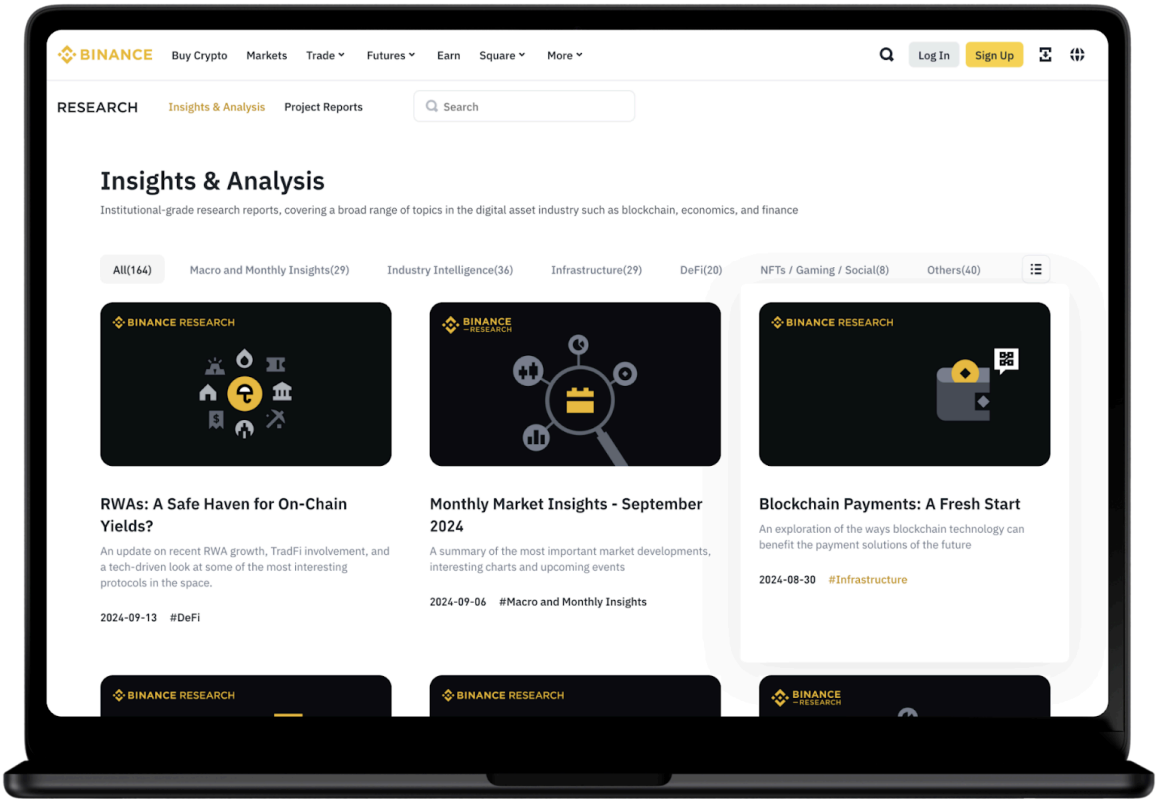
Resources

Binance Research **Link**



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