

## Level Set - The Cut:Pause:Cut Playbook

By all accounts, the Fed is going to cut rates this coming week. We have no differentiated view, but most of our clients think 25bps is the likely outcome. Our best guess is that a 50bps cut would be perceived as surprisingly dovish, and “not in the price” from the equity market perspective. If any cut of the Fed Funds rate occurs, it will end a nine-month pause since the last cut, which was in December 2024. We have been asked in our recent meetings about the path for the Fed and what subsequent equity market playbook could unfold. We show below the nine previous periods we could identify when the Fed had begun cutting rates, then paused for some period of time (more than 3 months and less than 12 months), and then started cutting rates again. Our thought is to make this week’s cut more relevant to the previous similar periods in history, as our suspicion is the equity market playbook that unfolds won’t be identical to “initial cuts” of a cycle. This is the so called “Cut:Pause:Cut Playbook”.

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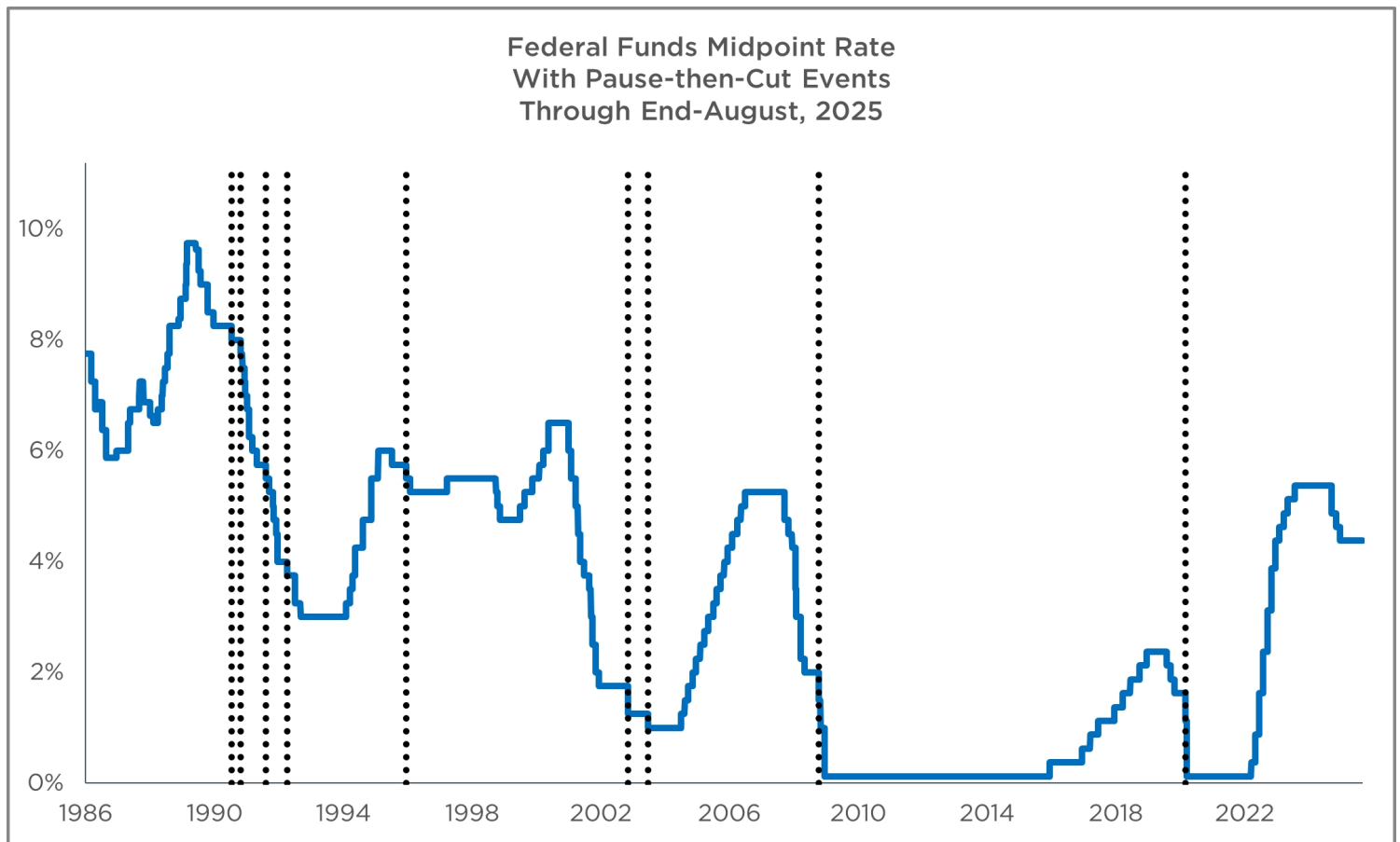
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## The Fed Paused Its Cutting Cycle Between 3 and 12 Months Nine Previous Times



Source: Trivariate Research, LP

Below is the table with the starting dates, mid-point of the Fed Fund rates, and the days and months between “pauses” on the cutting cycle. Since 1986, this current pause is the 2<sup>nd</sup> longest “pause,” at 273 days, assuming the Fed cuts this coming Wednesday, September 17<sup>th</sup>.

<b>Previous Cut and Pause Time Frames</b>				
<b>Dates</b>	<b>Fed Funds Rate</b>	<b>Previous Cut</b>	<b>Days Since Last Cut</b>	<b>Months Since Last Cut</b>
11/6/2002	1.25%	12/11/2001	330	10.8
9/17/2025	4.38%	12/18/2024	273	9.1
6/25/2003	1.00%	11/6/2002	231	7.6
7/13/1990	8.00%	12/19/1989	206	6.8
12/19/1995	5.50%	7/6/1995	166	5.5
10/8/2008	1.50%	4/30/2008	161	5.3
3/3/2020	1.13%	10/30/2019	125	4.1
4/9/1992	3.75%	12/20/1991	111	3.6
10/29/1990	7.75%	7/13/1990	108	3.6
8/6/1991	5.50%	4/30/1991	98	3.2

*Note: Shaded area assumes the Fed Cuts September 17th*

Source: Trivariate Research, LP

What was the performance overall and by sector following these previous nine events of cutting, then pausing for three to 12 months, and then cutting again? **Below we show that on average the S&P500 was down 2.6% over the first month, and down 1.2% on average over the next three months during these similar cut-pause-cut again regimes. But, by 12-months later, the average return for the S&P500 is up 15.1%.** We are not confident that the S&P500 will rally on the news of a cut this week. Some investors think there is a chance the Fed cuts 50bps, as opposed to 25bps, and perhaps that is perceived as surprisingly dovish and causes a market rally. We have been suggesting for some time that the market might not positively reward an interest rate

cut at this point, given it is likely only coming as a sign the economy is slowing. History shows all sectors average being down in absolute terms for the one-month reaction after a cut and pause. The best performing sectors in the past were Financials, Consumer Discretionary, and Technology. The worst were Real Estate, Communication Services, and Healthcare. But, the market has consistently proven to be increasingly anticipatory, and if investors think the market will be meaningfully higher in a year, they are likely to buy any short-term dips. A year later, Financials were also the best performing on average, but the median 12-month forward performance was best in Technology. We are recommending Financials, but have an underweight in Consumer Discretionary. We have been worried that a Fed cut could cause a rotation into Consumer stocks contradicting our underweight view, but we feel we are balanced vs. history, recommending some previous winners and some previous losers (like Healthcare).

Sector Performance Following Fed Cut and Pause Average of Previous 9 Events Since 1986								
Period in Months	1		3		6		12	
Sector	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Financials	(1.8%)	0.8%	(2.0%)	2.5%	5.7%	8.3%	26.8%	21.1%
Consumer Discretionary	(3.5%)	(1.7%)	(0.3%)	2.0%	11.0%	12.4%	22.7%	20.0%
Information Technology	(2.6%)	(2.9%)	0.5%	(0.6%)	10.1%	6.9%	22.5%	25.3%
Materials	(2.0%)	1.1%	0.6%	2.9%	7.4%	4.2%	21.9%	16.0%
Industrials	(3.4%)	0.1%	(1.7%)	(0.2%)	4.5%	6.9%	18.2%	18.3%
S&P500	(2.6%)	(0.4%)	(1.2%)	2.6%	4.8%	5.9%	15.1%	14.5%
Energy	(3.6%)	0.3%	(0.5%)	(0.6%)	0.4%	3.5%	14.3%	14.4%
Consumer Staples	(1.6%)	0.2%	(0.6%)	(0.6%)	6.2%	8.2%	13.8%	15.0%
Utilities	(2.5%)	(1.2%)	0.9%	(1.2%)	3.3%	6.5%	13.0%	11.7%
Health Care	(2.1%)	(1.3%)	0.2%	(1.8%)	4.8%	1.0%	11.9%	8.0%
Communication Services	(1.4%)	0.3%	0.1%	(1.2%)	4.1%	2.3%	11.6%	7.7%
Real Estate	(9.8%)	(10.5%)	(7.1%)	(5.1%)	(4.0%)	3.7%	8.2%	10.9%

Source: Trivariate Research, LP

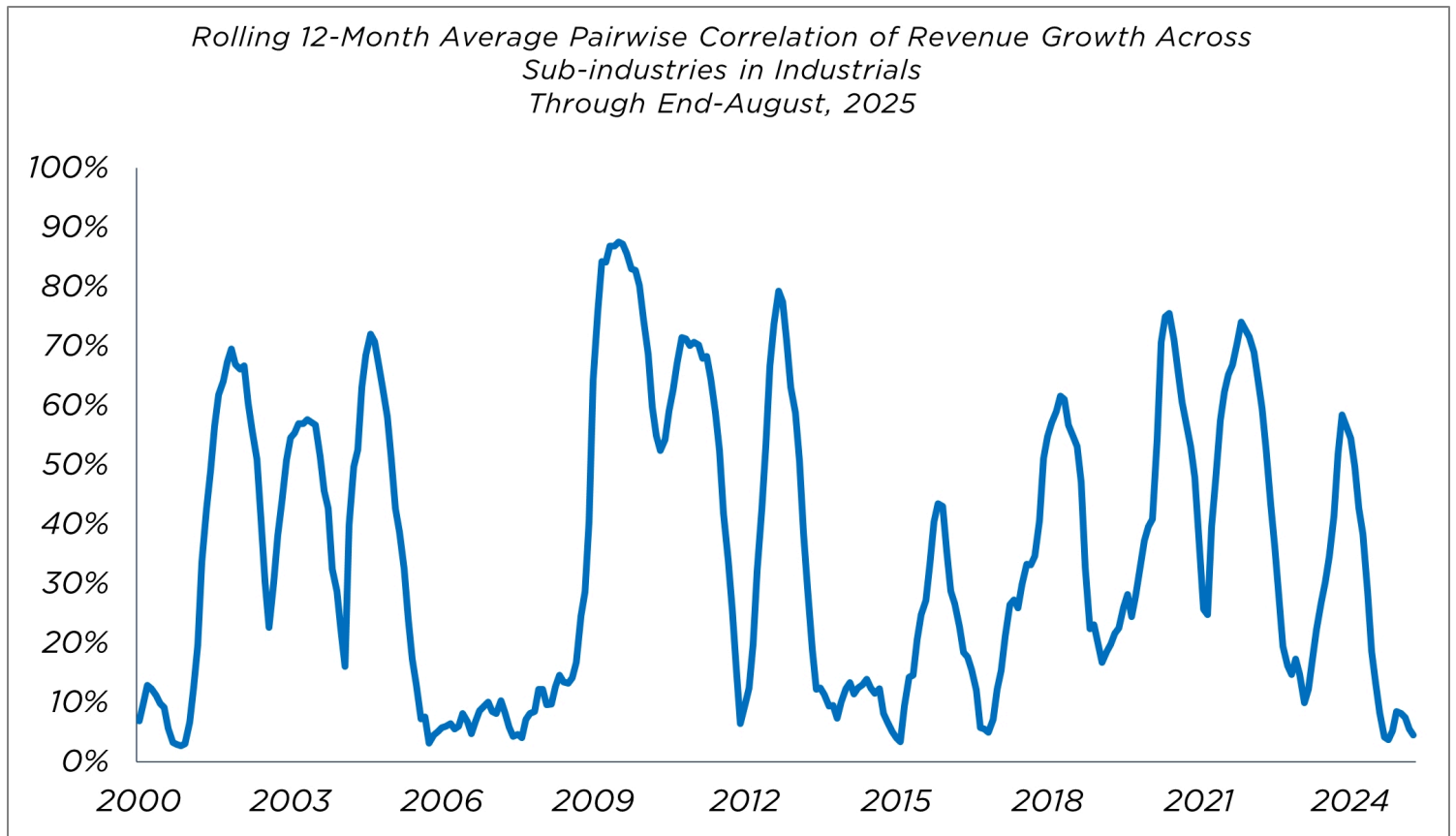
Moreover, we aren't sure if this one cut really matters as much, or can override, the growing consensus that eventually we will have a new Fed, with different leaders, and that this new Fed is far more likely to be dovish than hawkish. The simple logic for remaining bullish is that the distribution of outcomes is skewed toward the incrementally dovish, and that is not something history dictates an investor should fight, even if the historical cut-pause-cut playbook says we could have some near-term pullback before a 12-month recovery. **Our biggest overweight recommendations vs. the consensus weights are Healthcare, Financials, and Technology.**

Our suspicion is that we might see some powerful moves underneath the surface of the market, even if a market level sell-off does not materialize, and we've been trying to find more cyclical offense to recommend. **We remain worried about the fundamentals of many of the Consumer Discretionary and Consumer Staples' stocks, other than the "Consumer Mag 7" we highlighted last week (Walmart, Amazon, Costco, Home Depot, Lowe's, Sherwin Williams, and TJX Companies).** We believe for many of the Consumer Discretionary companies the fundamental weakness they are likely to show will not be offset by the multiple expansion that might come from a 25bps stimulus on the front end of the interest rate curve. But, we recognize we have seen some big moves from market lows in rate-sensitive stocks like Homebuilders (Lennar is up 34% from lows in April), and as such, we thought we would look at the Industrials sector, where we have a market-weight recommendation, as a potential source for offense during this cycle. **The median Industrials stock did better than the S&P500 during 1,3,6,and 12 month cut:pause:cut scenarios in the past.**

There are 25 different sub-industries in the Industrials sector at present, including Aerospace & Defense, Air Freight & Logistics, Building Products, Construction & Engineering, Electrical Components & Equipment, Industrial Conglomerates, Machinery & Supplies / Components, Passenger Airlines and Rail Transportation, among others. This is a very diverse sector, and we feel strongly the fundamentals are really different for the sub-industries and that a group call is not even relevant. In fact, the correlation of the fundamentals of the Industrials sub-industries, as measured by 12-month revenue growth, is near a quarter-century low. This means the fundamentals of the businesses are starting to deviate materially, and we think this is borne out of the remnants of COVID, where we had strong supply disruption combined with extremely high nominal GDP. An investor said to us a year ago, that they thought there was a chance the US would never have a "classical recession" ever again. At the time, we thought the comment was crazy. But, what rings true, is that businesses within the Industrials sector are no longer

synchronized. Varying monetary and physical policy globally and different periodicities and amplitudes of cycles make for more diverse underlying opportunities and less of a large group call under the present regime.

## The Fundamentals Within the Industrials Sector Are Different



Source: Trivariate Research, LP

Despite these diverging fundamentals, we have not seen a big difference in valuation dispersion, huge increases in company-specific risk, or large changes in the pairwise correlation of the stocks in the Industrials sector. Our sense is that the opportunity for stock selection and alpha generation in the Industrials sector will improve between now and year-end. **Our first choice within Industrials for risk-taking is Building Products.** This group is rate-sensitive and typically works when the Fed cuts. The Building Products stocks have been highly correlated to Home Builders since the lows in April, (the returns of Lennar and Builders Firstsource, as examples, are highly correlated from April lows) but we think are more likely to show relatively better fundamentals over the coming six months. We also think Industrials laggards, down in the last 6 months but without structural impairments (which we proxy as stocks with less than 5% short interest), could be interesting. Below we show a quantitatively-derived idea screen which includes some rate- and economically-sensitive Machinery stocks. This screen shows stocks that are down in the last six months in absolute terms, in the top half of our quality model (so no Junk or Low Quality), and with less than 5% short interest.

## Industrial Sector Stock Ideas

### Quantitatively-Derived

Down Last 6 Month, Less than 5% Short Interest, Top Half Quality

As of September 12th, 2025

Ticker	Company	Sub-Industry	Market Cap. (US \$Bil.)
WM	Waste Management, Inc.	Commercial Services & Supplies	87.9
CARR	Carrier Global Corporation	Building Products	52.5
WCN	Waste Connections, Inc.	Commercial Services & Supplies	45.3
VRSK	Verisk Analytics, Inc.	Professional Services	36.6
OTIS	Otis Worldwide Corporation	Machinery	35.0
IR	Ingersoll Rand Inc.	Machinery	31.3
DOV	Dover Corporation	Machinery	23.7
FTV	Fortive Corporation	Machinery	16.5
IEX	IDEX Corporation	Machinery	12.1
G	Genpact Limited	Professional Services	7.4
ESAB	ESAB Corporation	Machinery	6.7
CWST	Casella Waste Systems, Inc.	Commercial Services & Supplies	5.8
UFPI	UFP Industries, Inc.	Building Products	5.8
FELE	Franklin Electric Co., Inc.	Machinery	4.2
UNF	UniFirst Corporation	Commercial Services & Supplies	3.2

Source: Trivariate Research, LP

**Conclusion:** The performance of US equities is correlated to changes in perceptions about growth and changes in perception about rates. Big picture, whether the Fed cuts or not and by how much, doesn't really matter that much to us. The distribution of outcomes for the Fed over the next year is skewed toward the group getting incrementally dovish. The distribution of outcomes over the year for growth is likely to see several AI-productivity proof cases. That is a powerful cocktail that explains the market rally and valuation. We think looking for Industrials laggards might be a good risk-reward way to play the "Cut:Pause:Cut Playbook" that is likely going to imminently unfold.

## Important Disclosures

### Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Chang Ge, Colin Cooney and Ryan McGovern, responsible for the preparation of this research report certifies that: all the views expressed in this research report accurately reflect the research analyst's personal views.

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