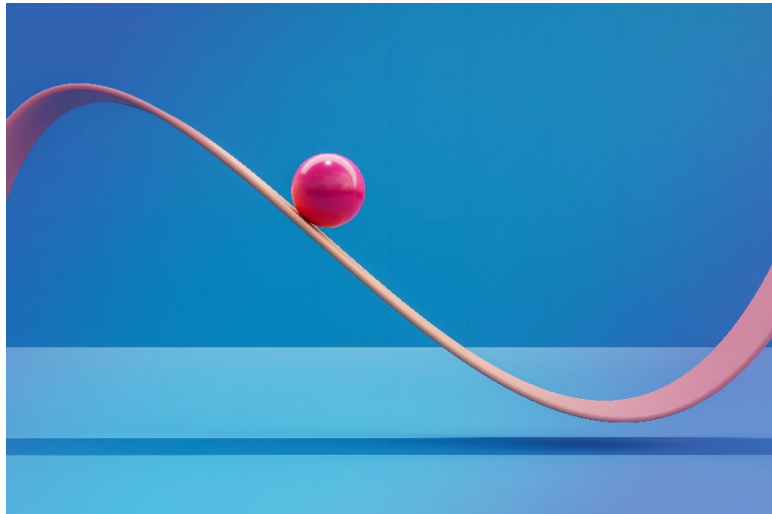


What Is a Recession and What Does That Mean for the Markets



As the seasons change and the days start to get chillier, market trends are calling for doom and gloom in the economy. Some argue that a recession is inevitable if not already here. What exactly does this mean and what should Americans do if in fact we are in a recession?

What is a recession? Is the U.S. economy in one now?

There is no exact definition for an economic recession, but many scholars broadly define it as two consecutive quarters of declining gross domestic product (GDP). In Q1 of this year, real

GDP declined by 1.6% and the latest reports show that Q2 GDP was down by 0.9%.¹ Under this definition, the U.S. economy could technically be considered in a recession. However, the National Bureau of Economic Research (NBER), the entity responsible for officially declaring recessions, has yet to do so. The NBER typically acknowledges periods of recessions after the fact because the previously mentioned definition does not consider other impacting variables like unemployment rates, inflation, and global events.

Recession or not, the truth is that markets have not been performing at their best and many are worried about what this means for their retirement as well as their overall financial wellbeing.

How did we get here?

There are several factors that have contributed to poor market performance over the last two quarters. After years of lockdowns and restrictions, many were hopeful for a post-pandemic economic boom in 2022. However, supply chain disruptions stemming from the Covid-19 lockdowns along with sanctions against Russian oil and gas have magnified the issues facing the U.S. economy. Coupled with other inflationary pressures, investors are concerned the Federal Reserve may not achieve a “soft landing” for the economy as it raises interest rates to combat high inflation.

Should I be worried? How have the markets been affected?

The market's year-to-date performance has been deep in the red causing stress and anxiety for investors. However, this is not the first time we have seen such patterns. Markets have historically performed their worst in the months leading up to a recession. Many companies have been seeing their stock price drop with a bear market (20% decline off peak) being officially called in the S&P 500 earlier this June.² This is no cause for worry as contractionary periods in the economy are common and a natural part of the business cycle. In fact, research shows us that markets tend to recover well in the following 6, 12, and 24 months after a recession.³



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What is the next step? What should I do with my investments?

Two quarters of negative GDP and the threat of a recession is plenty to instill fear and deter investors from interacting with the market. However, 9 out of the past 10 recessions show positive market returns just one year later, averaging at 16%. The median growth of a \$100,000 investment 10 years from the start of a recession is \$222,581 and returns were positive in all cases.

Investing in the current market environment can be mentally challenging, but history shows us that with a long-term focus and if you can handle riding out the short-term volatility, that allows the best opportunity for setting yourself up for extraordinary long-term gains.

Sources:

1 <https://www.bea.gov/news/2022/gross-domestic-product-second-estimate-and-corporate-profits-preliminary-second-quarter>

2 <https://www.forbes.com/sites/gai/2022/08/24/the-average-bear-market-lasts-289-days-how-long-do-we-have-left/?sh=34829ee5d5d3>

3 <https://6743242.fs1.hubspotusercontent-na1.net/hubfs/6743242/Markets%20and%20Recessions%20-%20Trending%20Conversations%20presentation.pdf>

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