

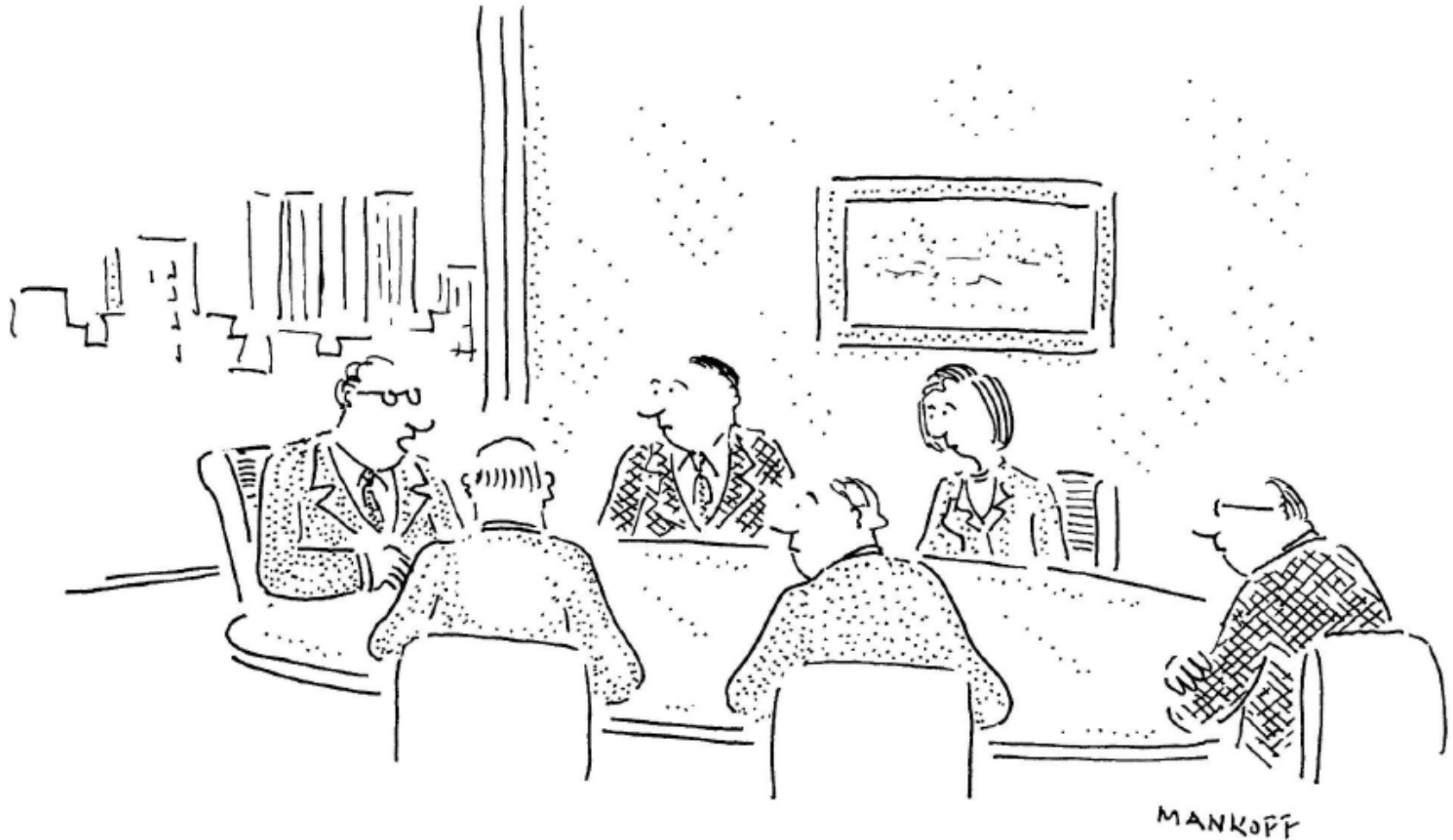


# Fall Trustee School

## Rates & Recession – Where Are We?

*Beth Bowen, CFA*  
*Vice President*

# Rates & Recession



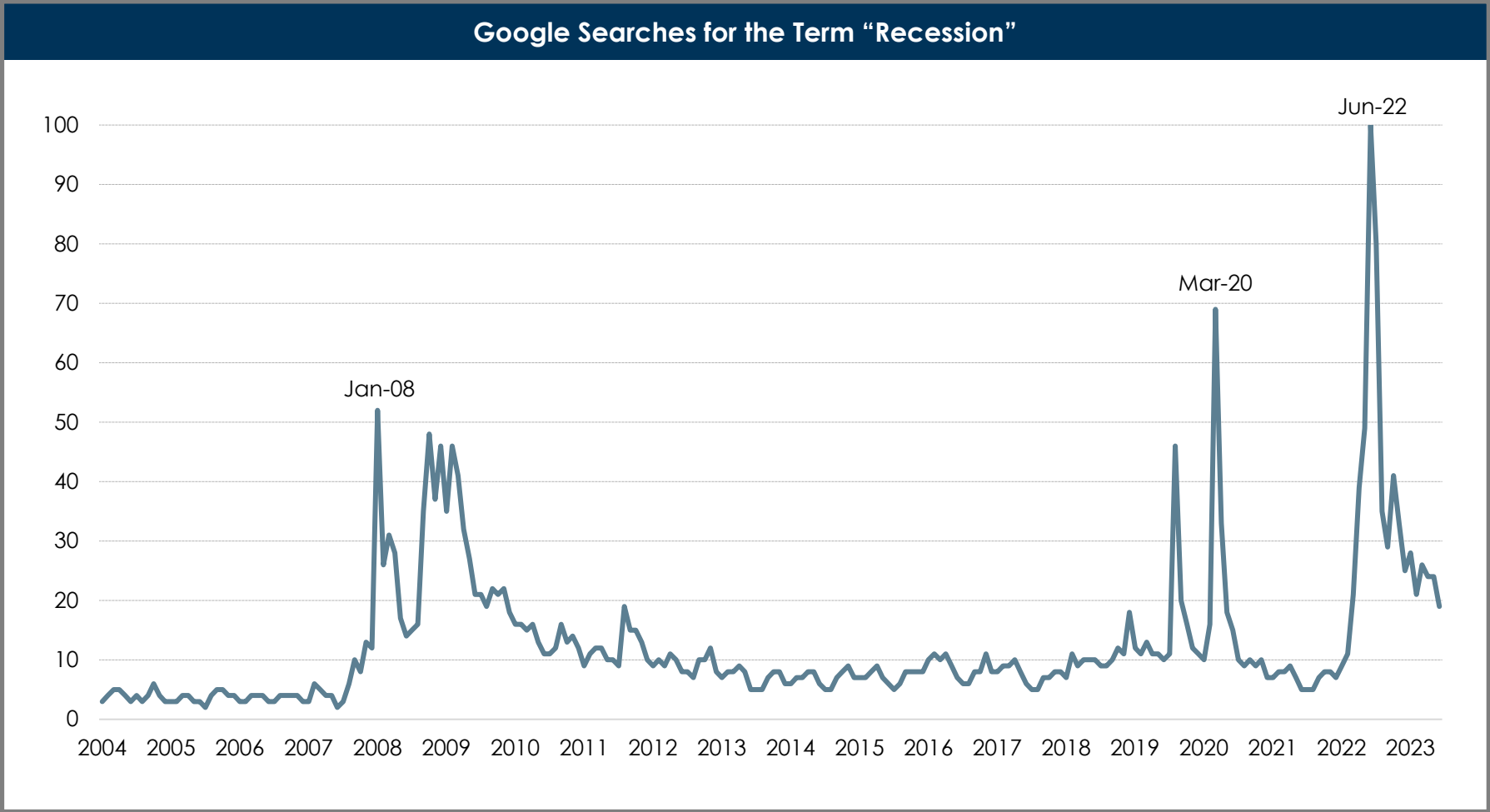
*“And, while there’s no reason yet to panic, I think it only prudent that we make preparations to panic.”*

# Rates & Recession



*"Now we just have to sit back and wait for the Fed to bail us out."*

# Are We in a Recession?



# What is a Recession?

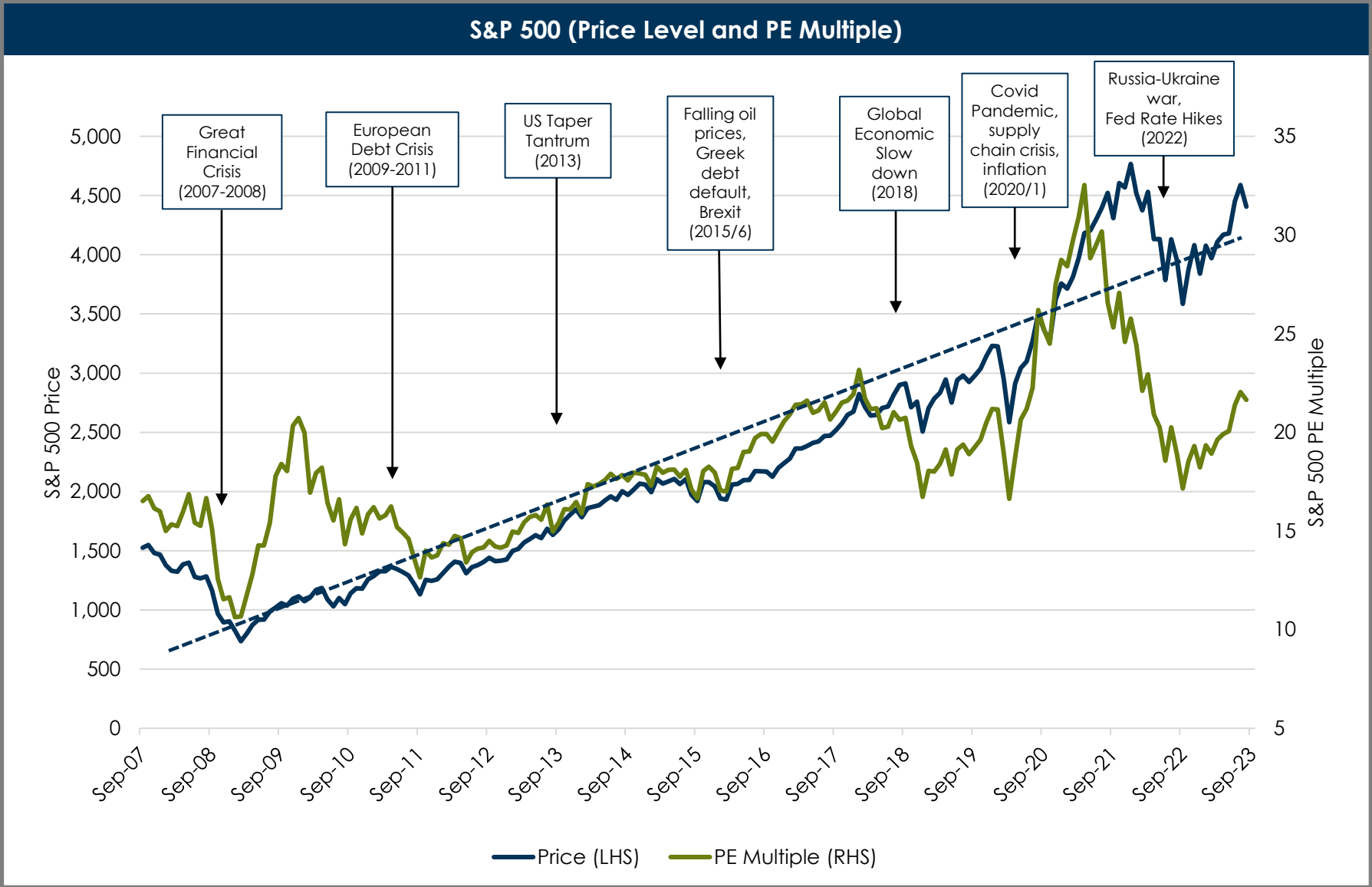
- A **significant decline in activity** spread across the economy
- A **normal part of the business cycle**
- **Begins when the economy peaks** and ends when it reaches a bottom
- Recessions cannot be verified **until they actually occur**
- Recent history reminds us that the exact **definition is unclear**
- Economic and market cycles **do not always move together**

# What Signals a Recession?

Recessions are relatively easy to identify in hindsight - usually pointing to a **dislocation or “bubble” in the economy**

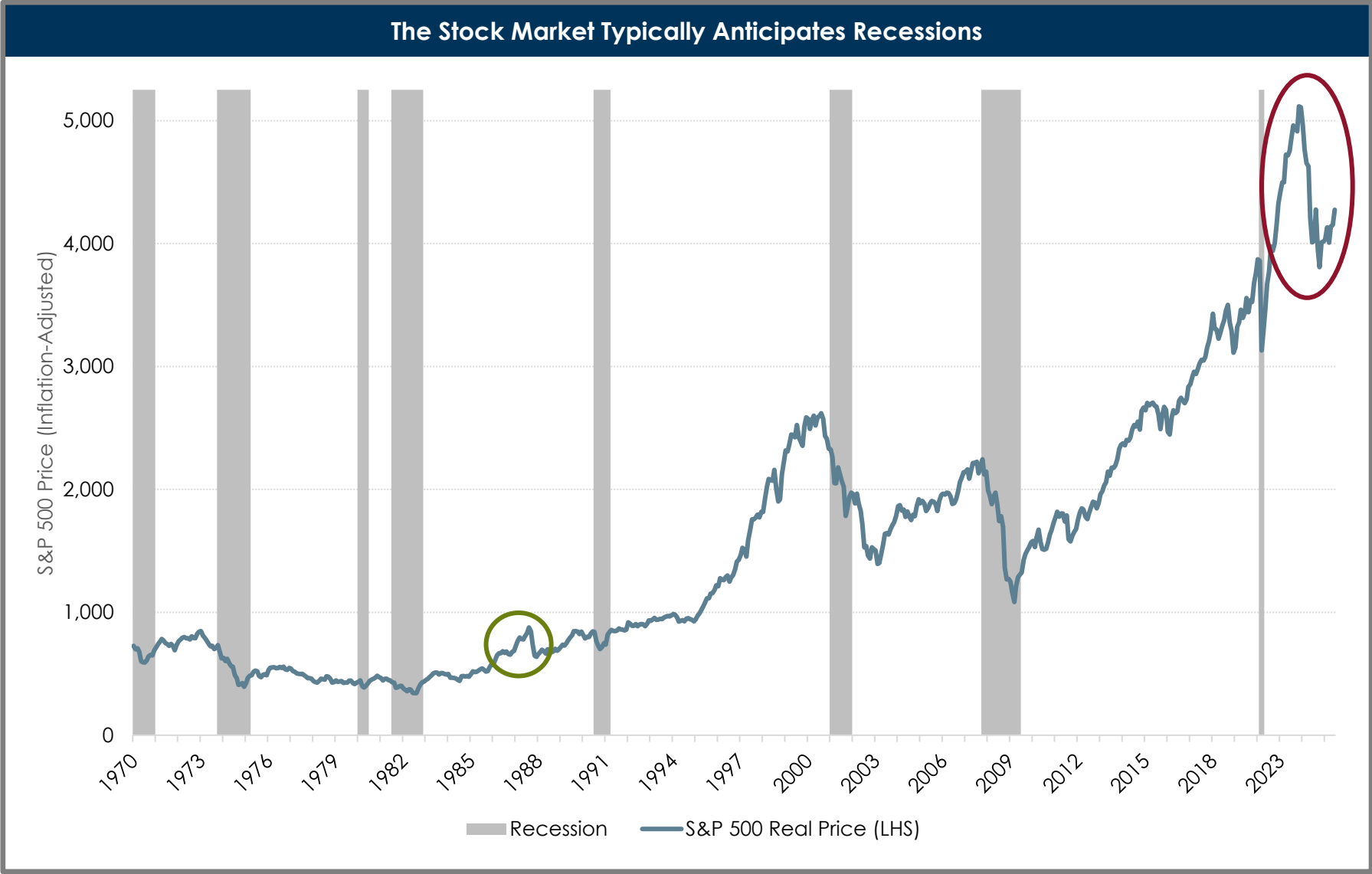
- Overheating economy
- Financial bubble
- External shock

# Market Shocks vs. Valuations



Source: ACG Research, Bloomberg

# Did 2022 Predict a Recession?

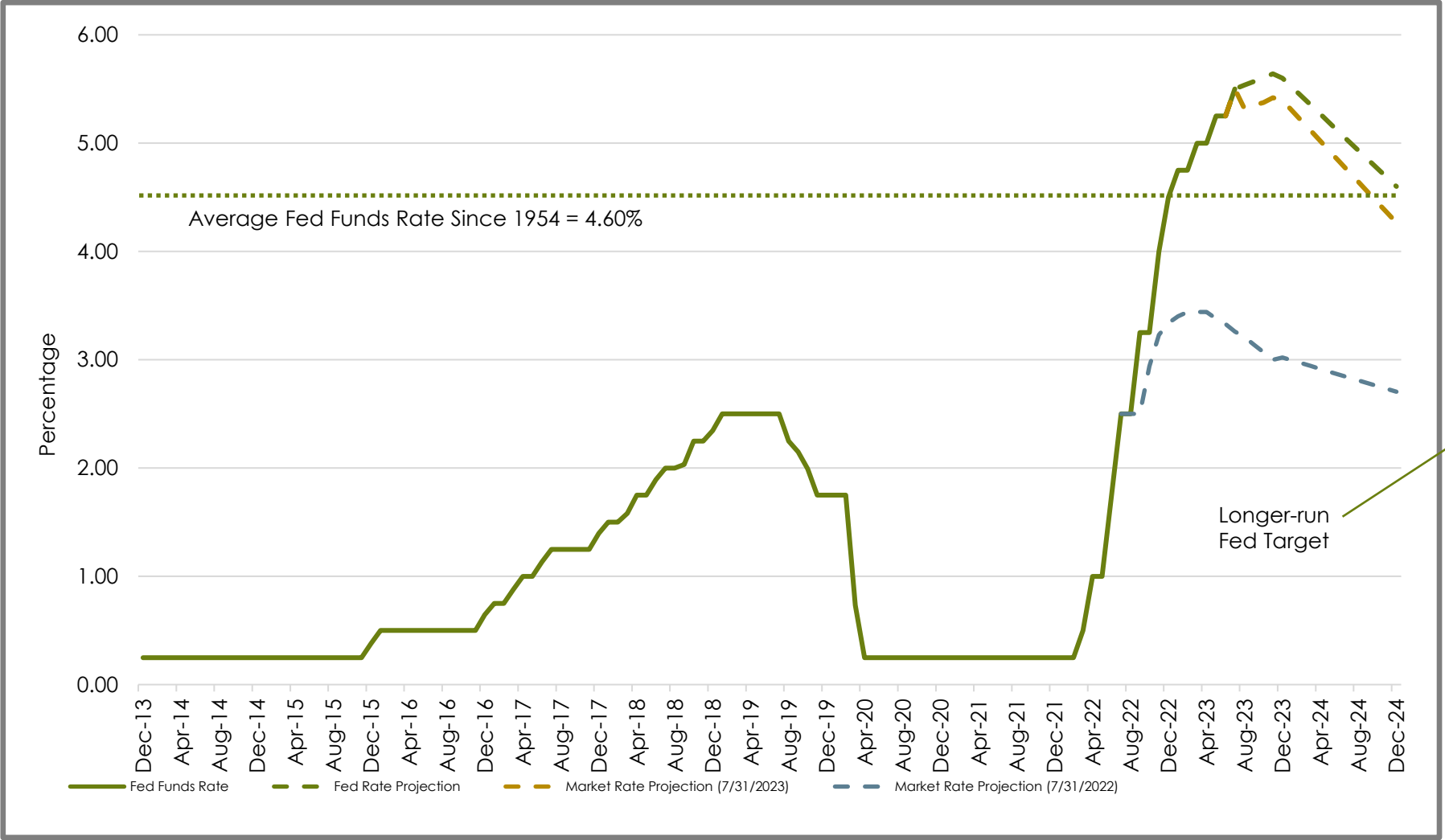




# How Common are Recessions?

- In the 90 years since the Great Depression, the U.S. has experienced a **recession every 6.5 years on average**
- The 14 recessions have lasted an **average of 10 months**
- After a 128 month expansion, 2020's Covid-19 **recession officially lasted just two months**
- The stock market has historically **declined 3-9 months before a recession starts**

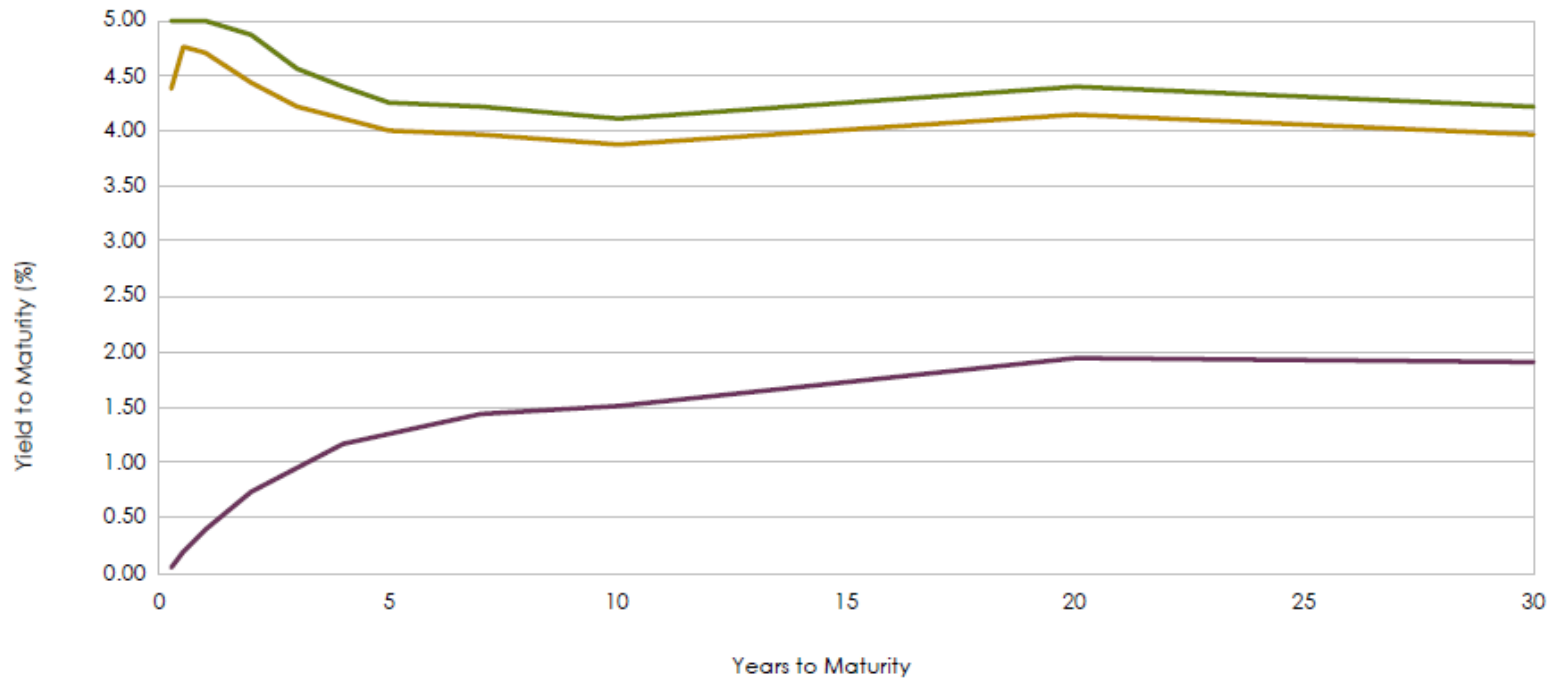
# Rate Hikes are Expected to Slow



Source: ACG Research, Bloomberg, St. Louis Federal Reserve (as of July 31, 2023). Balance Sheet Projection based on guidance from Fed meeting minutes.

# Recession - What Does the Yield Curve Say?

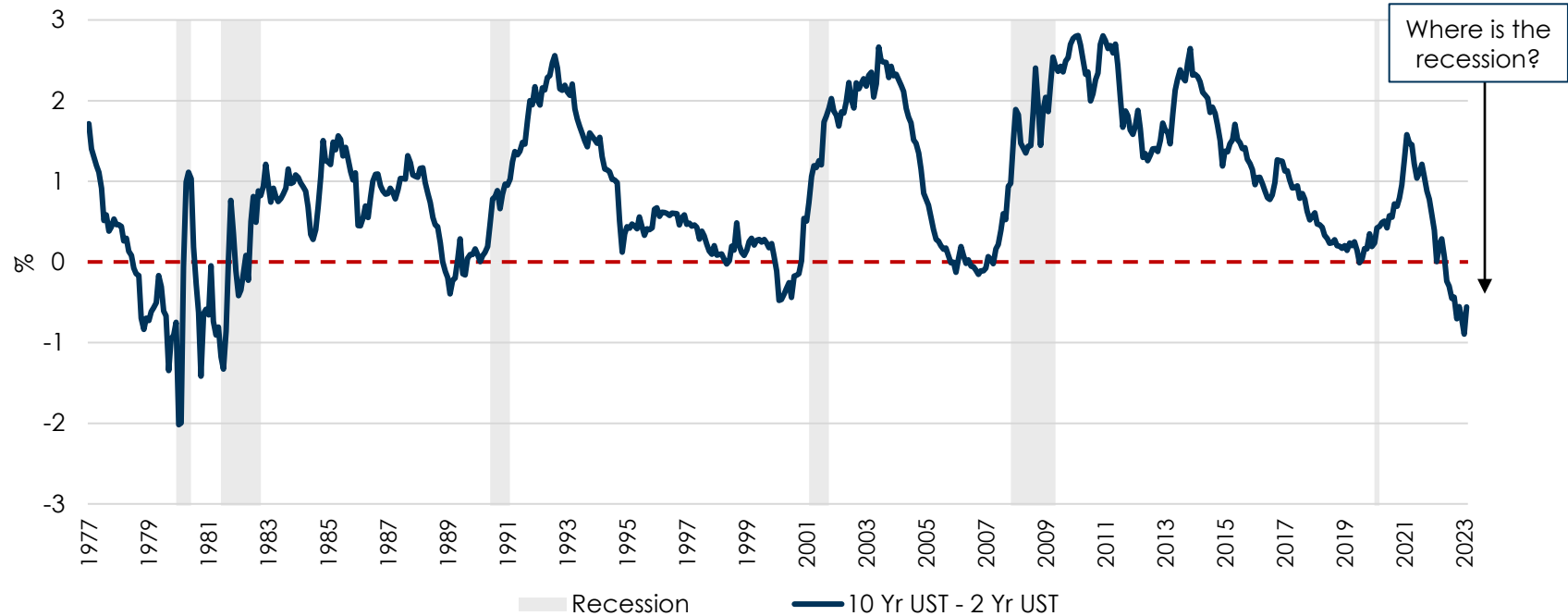
Interest Rate Term Structure  
Government Issues – 3 Months to 30 Years Maturity



Aug 2023      Dec 2022      Dec 2021

90 Days	5.40	4.37	0.04
180 Days	5.51	4.76	0.19
1 Year	5.39	4.71	0.38
2 Years	4.87	4.43	0.73
3 Years	4.56	4.23	0.96
4 Years	4.40	4.11	1.16
5 Years	4.26	4.00	1.26
7 Years	4.21	3.97	1.44
10 Years	4.11	3.88	1.51
20 Years	4.41	4.15	1.93
30 Years	4.21	3.97	1.90

# Recession - What Does the Yield Curve Say?

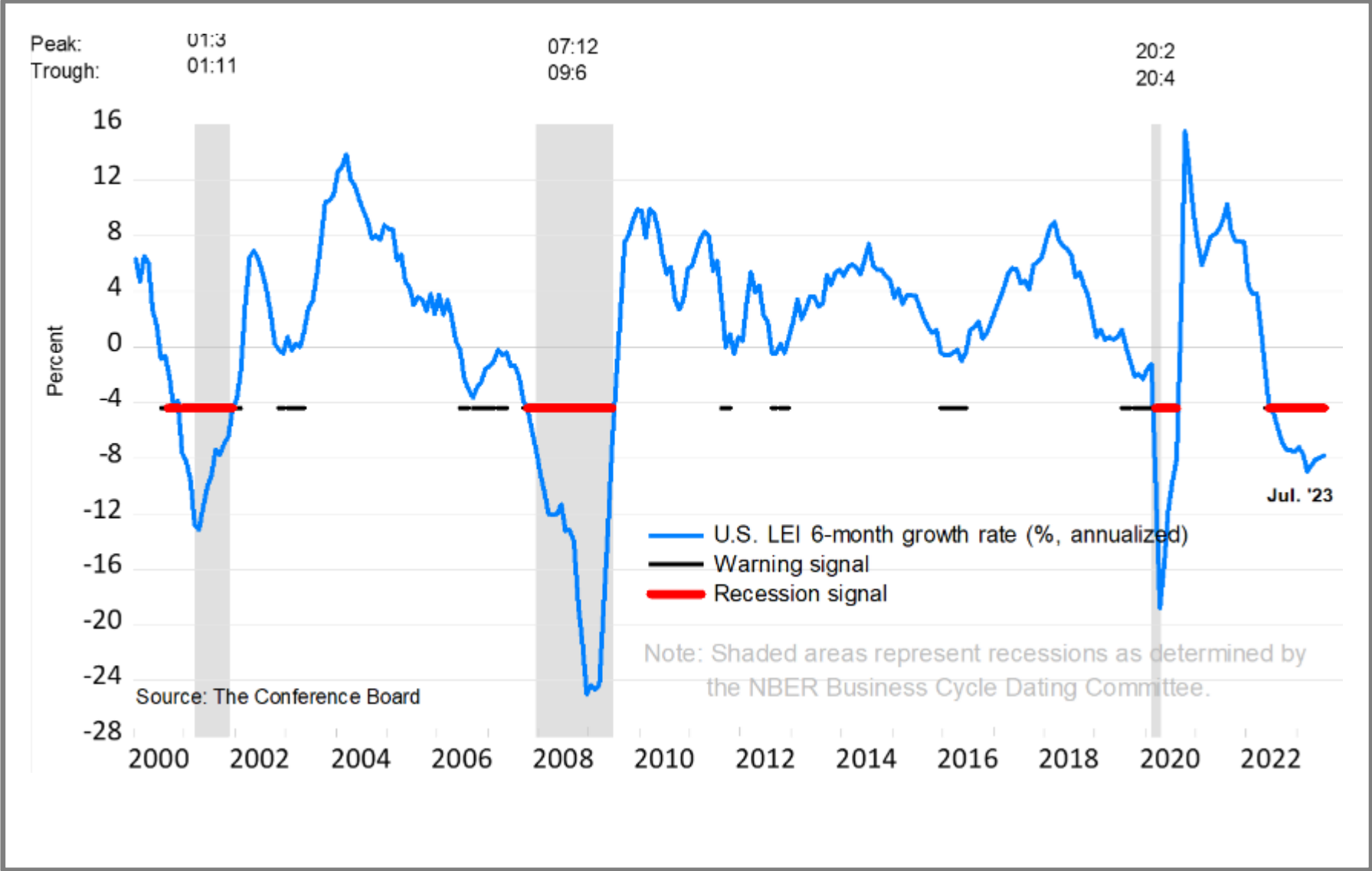


## Long and variable lead times between the 10-year/2-year inversion and recessions

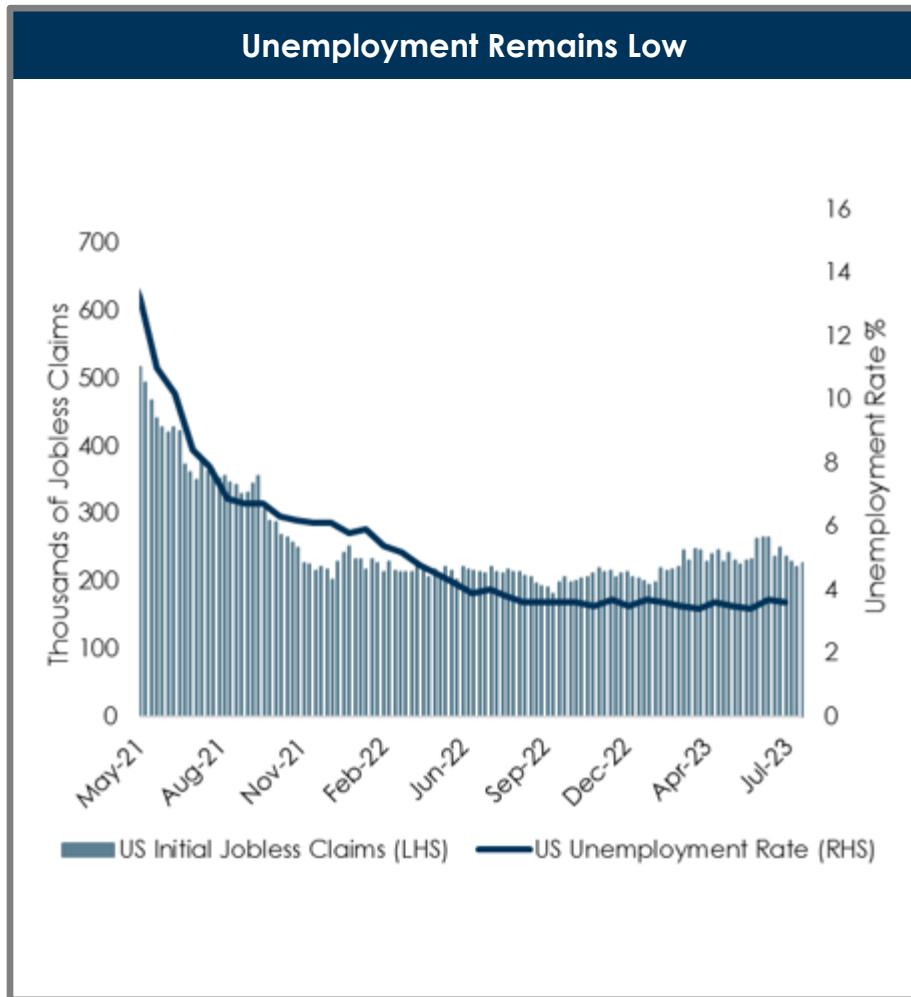
Initial Inversion	Recession Start	Months Between
August-78	January-80	16.5
September-80	July-81	9.5
December-88	July-90	18.5
March-98	March-01	35
December-05	December-07	23
August-19	February-20	6
July-22	?	?
<b>Average</b>		<b>18</b>

Source: ACG Research, Bloomberg, Oxford Economics (as of July 31, 2023)

# Leading Economic Indicators

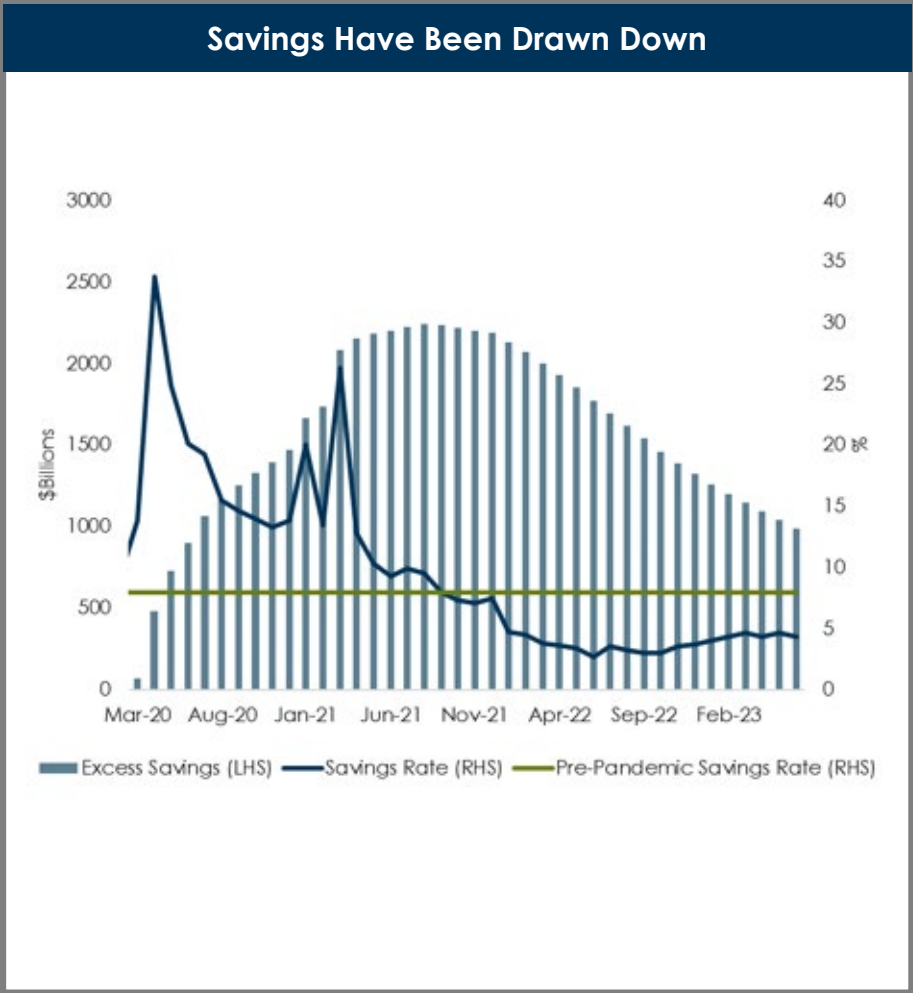
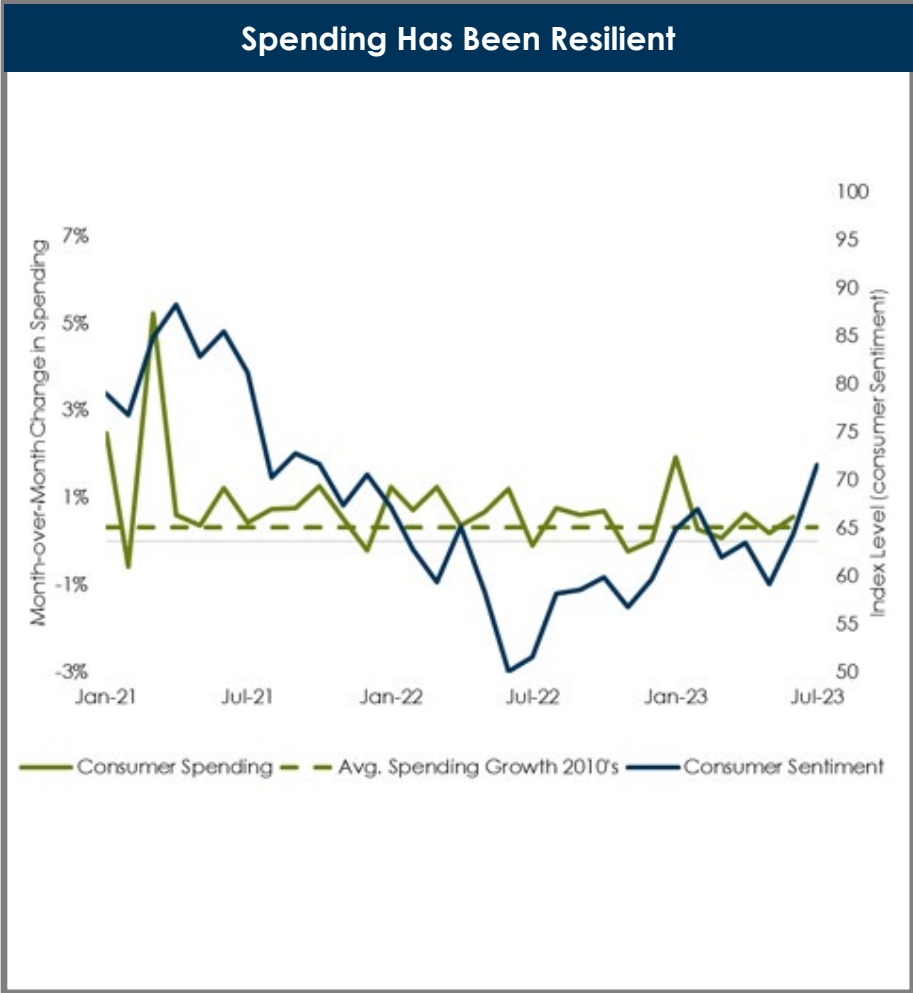


# The Labor Market Remains Healthy



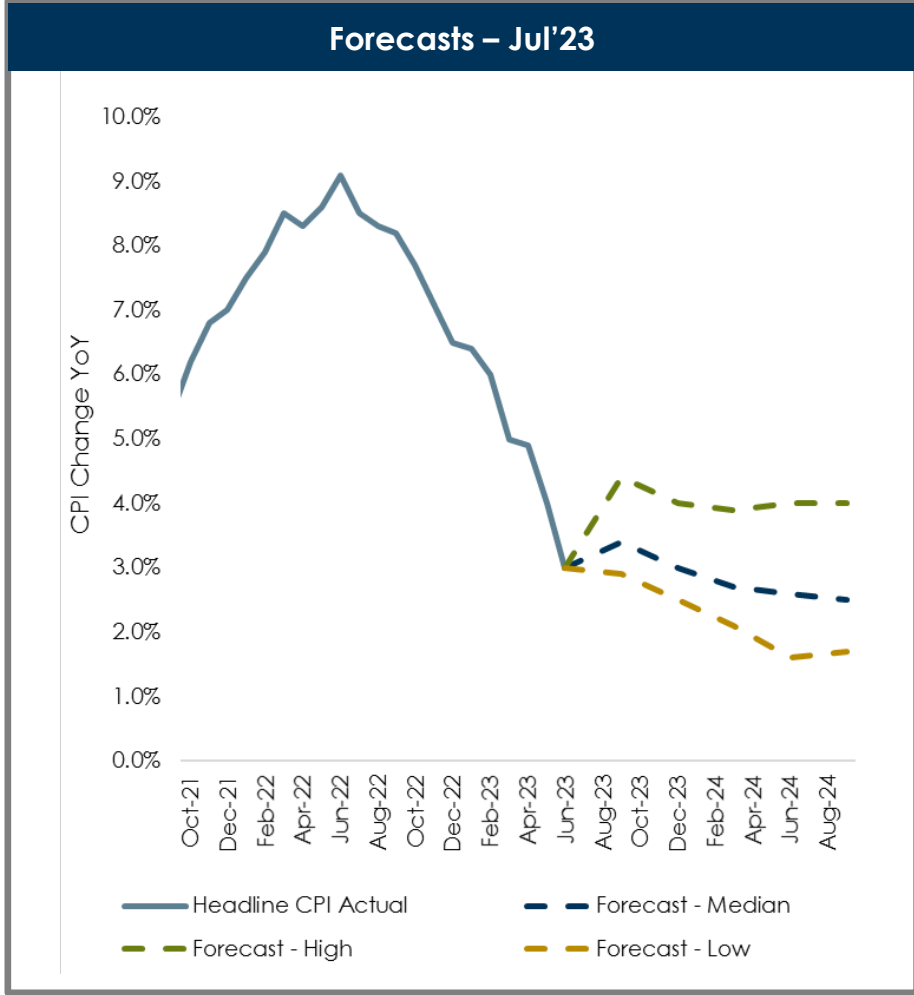
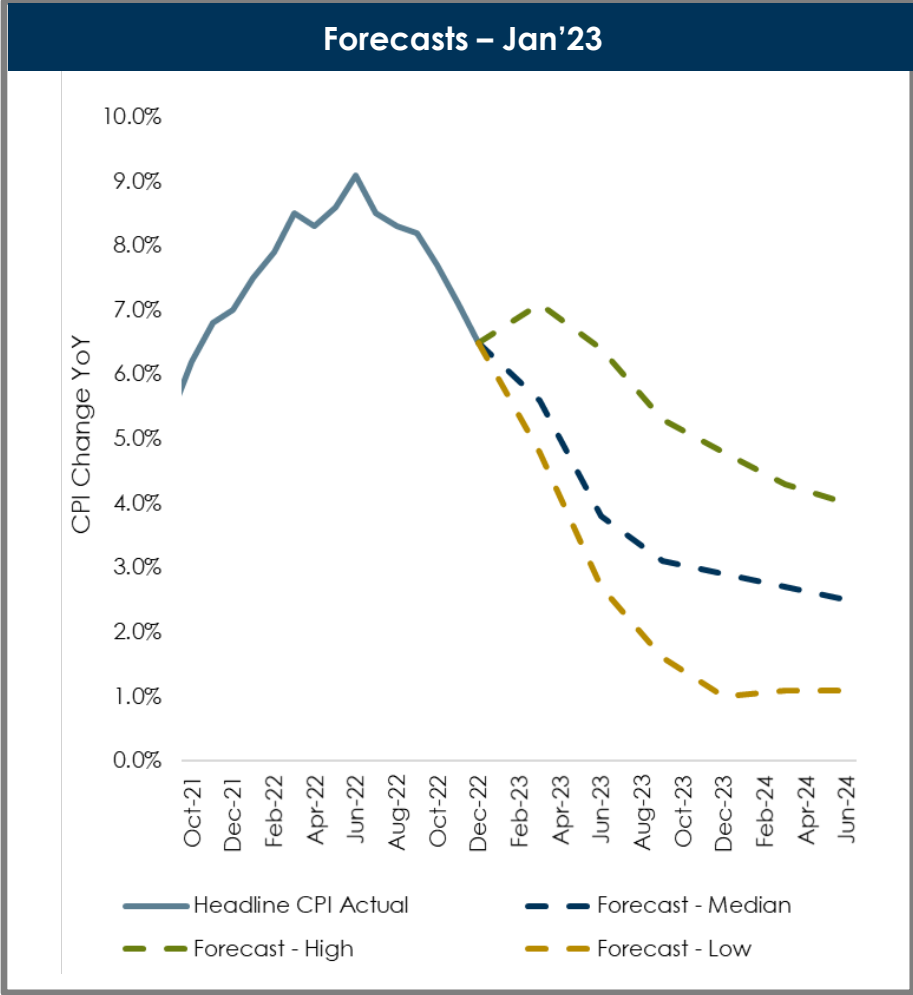
Source: ACG Research, Bloomberg, Bureau of Labor Statistics (as of July 31, 2023)

# Consumer Spending Is Still Supportive



Source: ACG Research, Bloomberg, University of Michigan (as of July 31, 2023) (Pre-pandemic savings rate is the average of the 3 years prior to the pandemic)

# Inflation Forecasts Vary



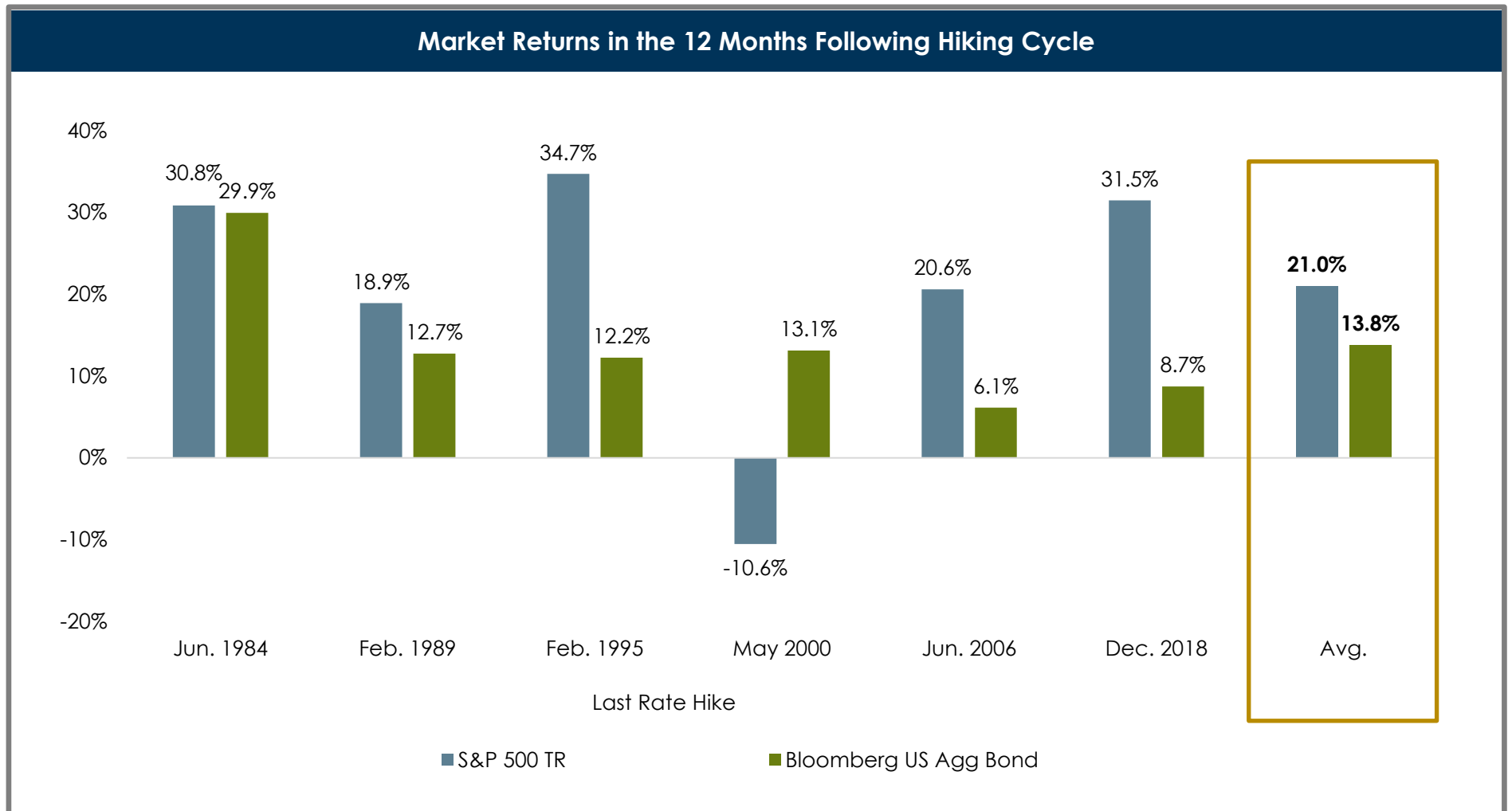
Source: ACG Research, Schroders, Bloomberg Forecasts sourced from 52 institutions (as of July 31, 2023)



# Potential Near-Term Risks

- Continued decline in liquidity - strain on small banks/businesses
- Inflation starts to rise again before the Fed starts to ease
- China's slowdown proves more problematic
- Geopolitical shocks

# Market Returns After Fed Peaks



Source: ACG Research, Bloomberg, Federal Reserve (as of July 31, 2023)

# Now What?

- There are many uncertainties about what lies ahead
- Avoid market timing
- Maintain a strategic asset allocation

*“Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.”*

**- Peter Lynch**

*“The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people.”*

**- Warren Buffett**

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