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Contributions and Income: Economic Cycles and Their Impacts

Jaclyn Campis, MBA, CFA

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Schroder Investment Management North America Inc.
Schroder Fund Advisors LLC, Member FINRA, SIPC
7 Bryant Park, New York, NY 10018-3706
(212) 641-3800
www.schroders.com/us

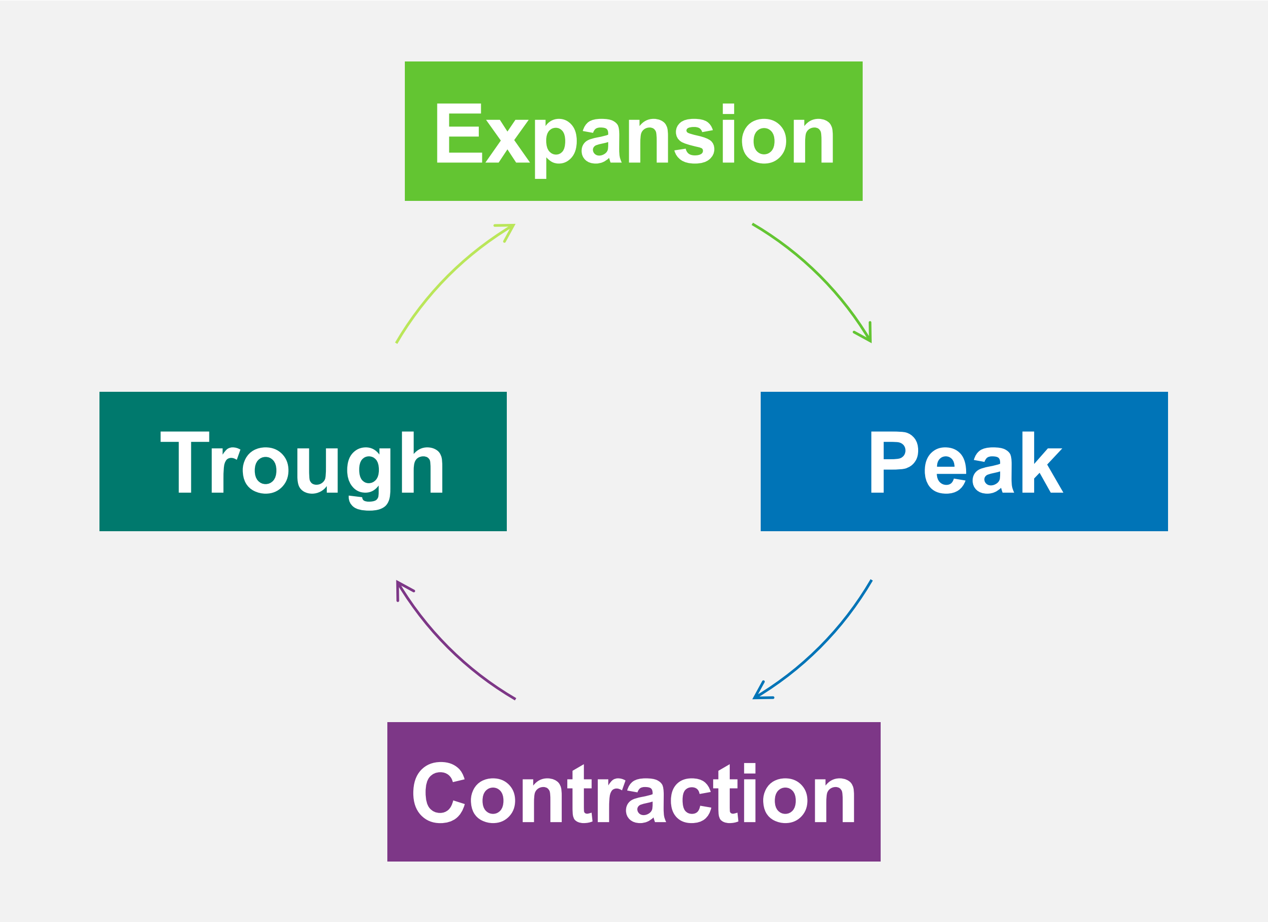
Session details

1 Define the business/economic cycle
2 Why understanding the economic cycle matters
3 Discuss the four stages of the economic cycle
4 Define key terms to describe economic cycles
5 Identify historical economic cycles
6 Define monetary and fiscal policy
7 Illustrate impact of cycle on retirement plans
8 Key factors for managing plans through the cycle

Source: Schroders.

Business or economic cycle

- Natural rise and fall of economic growth that occurs over time
- Cycle is driven by changes in consumer confidence, business investment, and external factors



Source: Schroders.

Why does the economic cycle matter?

– By understanding the economic cycle, one can make more informed financial decisions

– Retirement plans can be impacted by changes in the cycle, making it important to plan for ups and downs

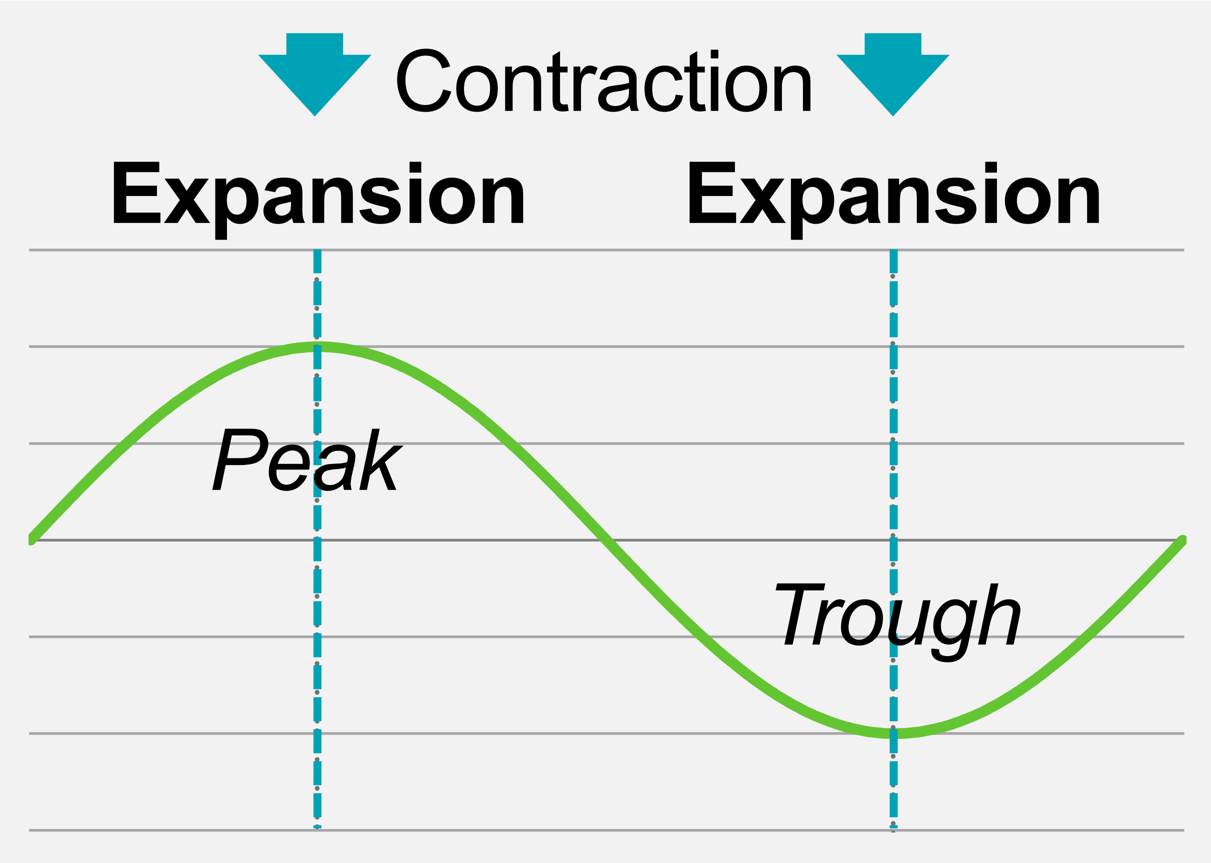
– Recognizing where we are in the economic cycle helps manage risks and potentially seize opportunities

Source: Schroders.

Four Stages of the Business Cycle: **Expansion**

Expansion

– High economic growth
– Low unemployment
– Rising income
– Increased spending

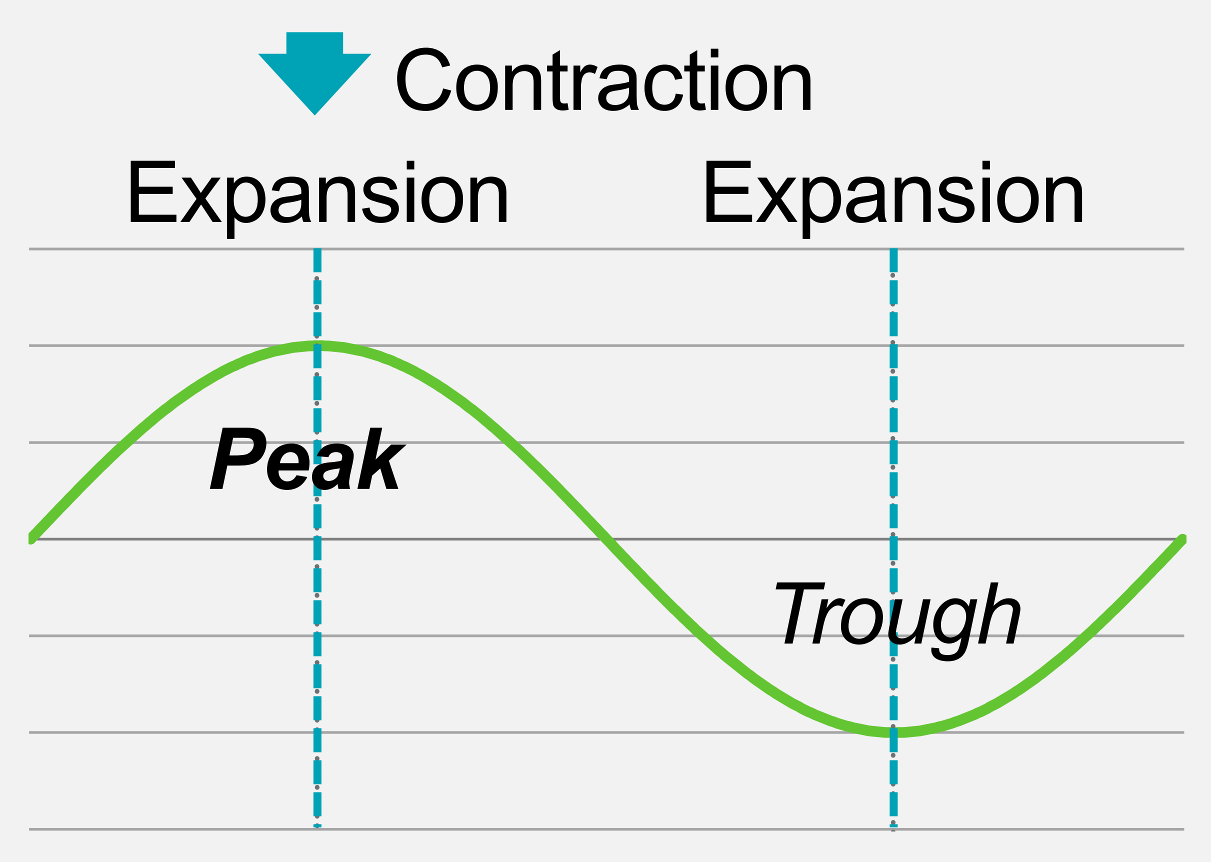


Source: Schroders.

Four Stages of the Business Cycle: **Peak**

Peak

- Highest point in the economic cycle when growth reaches its highest level before starting to slow down or decline

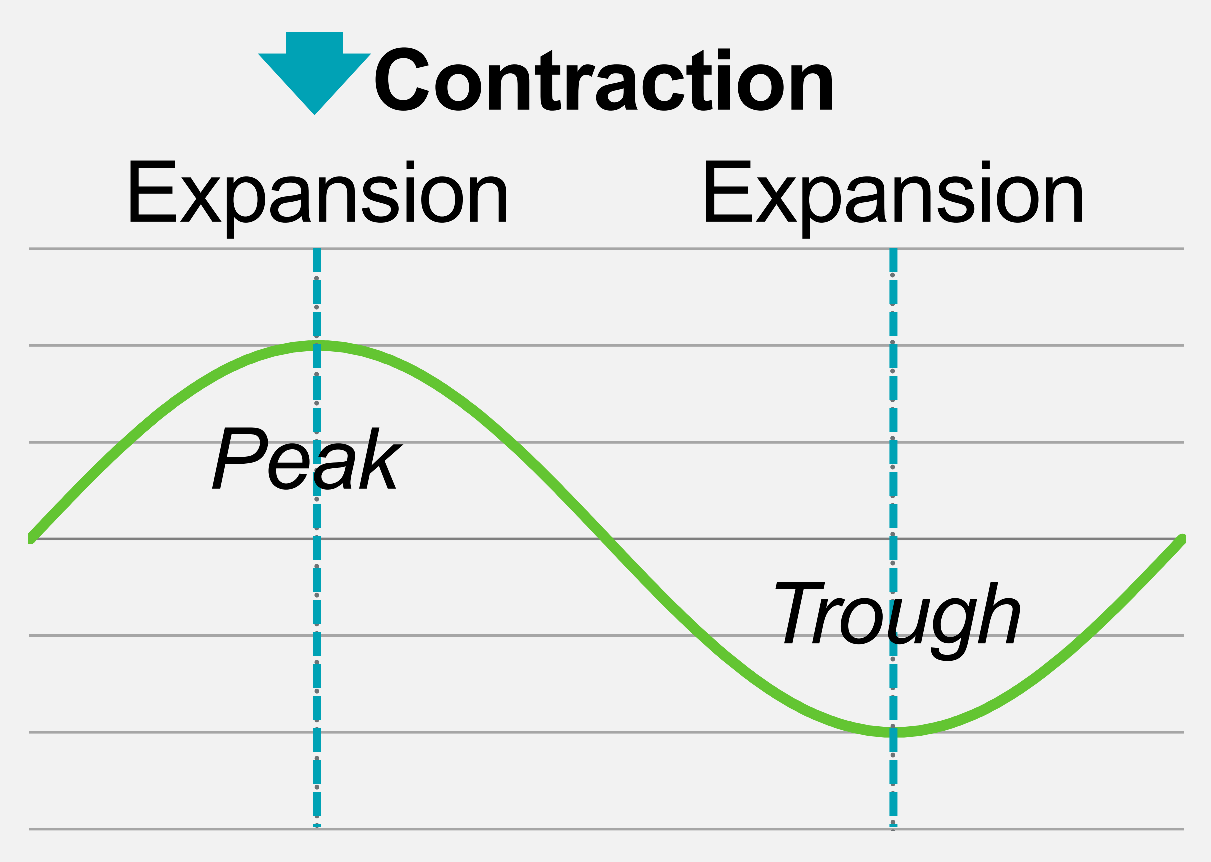


Source: Schroders.

Four Stages of the Business Cycle: **Contraction**

Contraction

- Economic growth slows
- Unemployment rises
- Spending and investment drop
- Economic growth turns negative

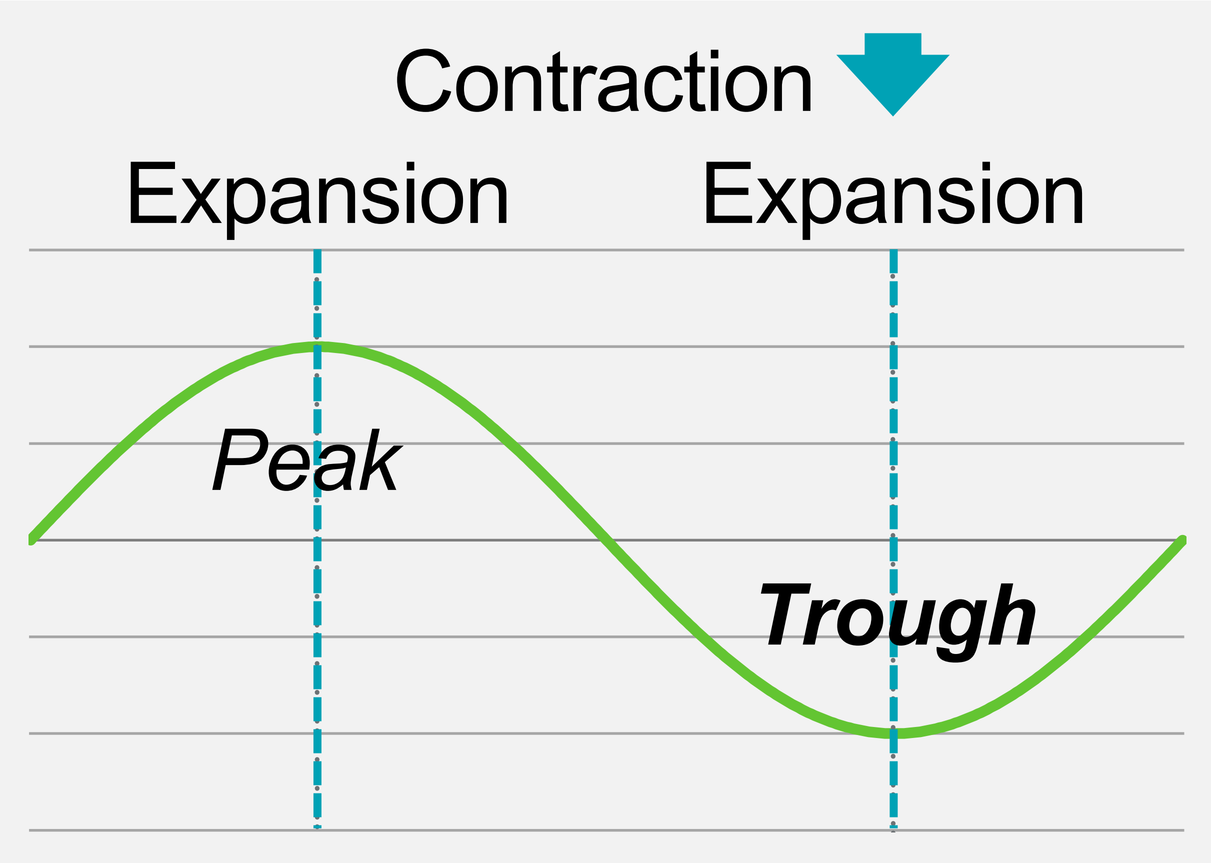


Source: Schroders.

Four Stages of the Business Cycle: **Trough**

Trough

- The lowest point in the cycle, economic decline bottoms out, unemployment is high
- The economy has reached the end of a recession and is about to expand again

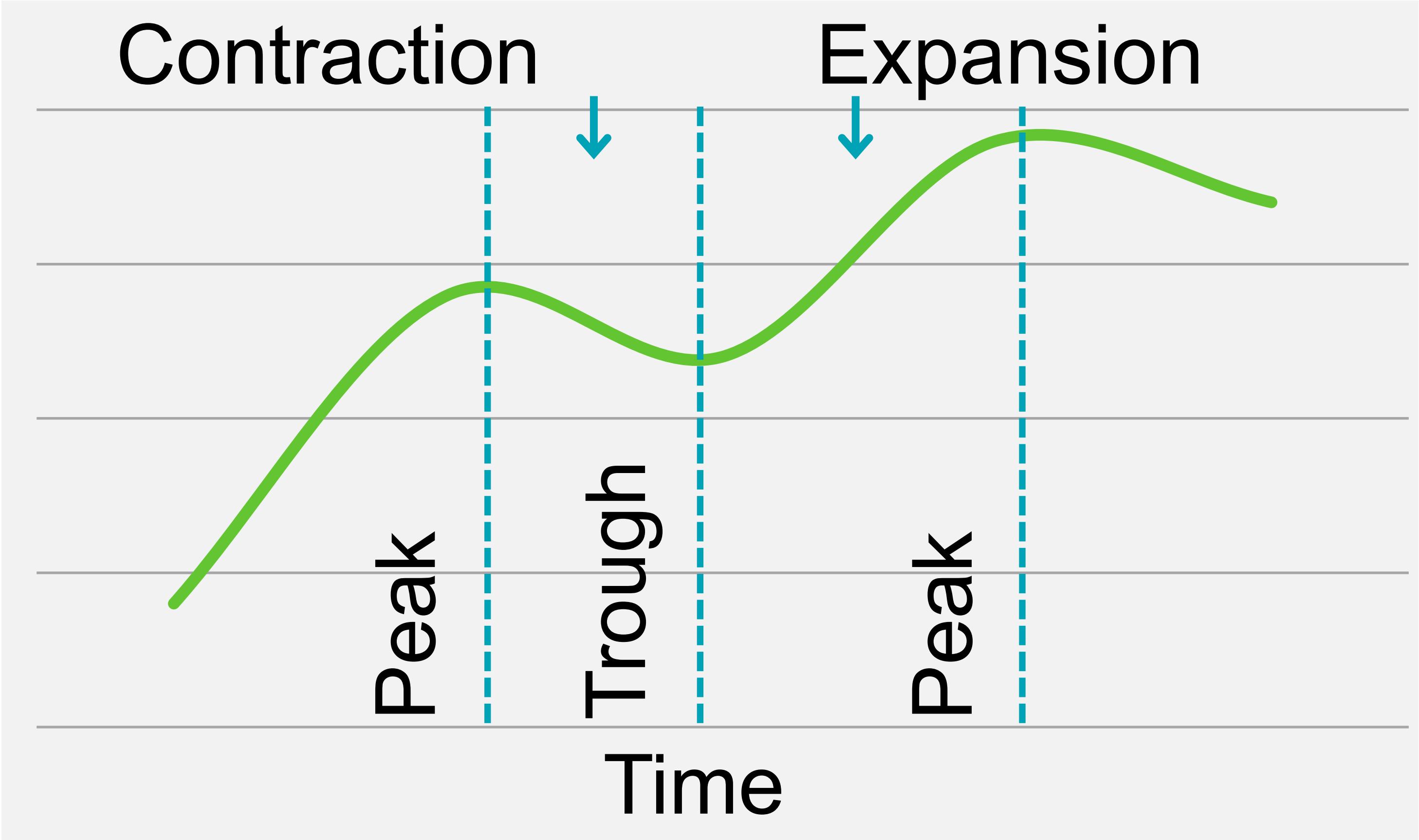


Source: Schroders.

Key Term: **Real Gross Domestic Product (GDP)**

Real Gross Domestic Product (GDP)

– Economic output of a country excluding inflation

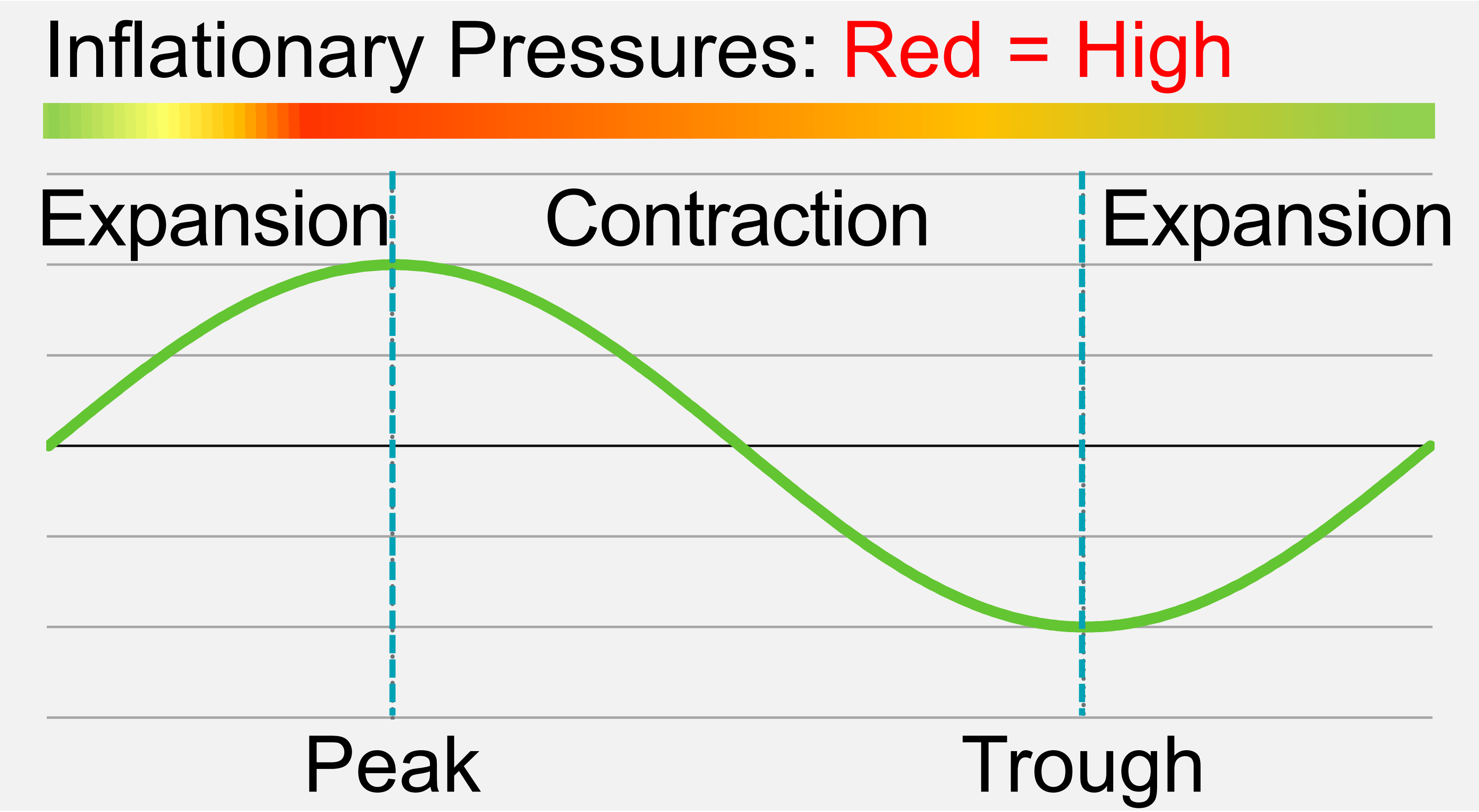


Source: Schroders.

Key Term: **Inflation**

Inflation

– General increase in the prices of goods and services over time



Source: Schroders.

Key Term: **Recession**

Contraction vs. Recession

- **Contraction:** Any period of declining economic activity, marked by falling GDP and rising unemployment
- **Recession:** More severe than contraction noted by a significant and sustained decline in general economic activity

Source: Schroders.

Historical **Economic Cycles**

Tools that Impact **Business Cycles**

- **Monetary Policy:** Used by central banks (Fed Reserve) to manage the money supply and interest rates – objectives include inflation, consumption, and growth
- **Fiscal Policy:** Elected officials implement to change the cycle – Contraction or Trough-including changes in government spending and taxes

Source: Schroders.

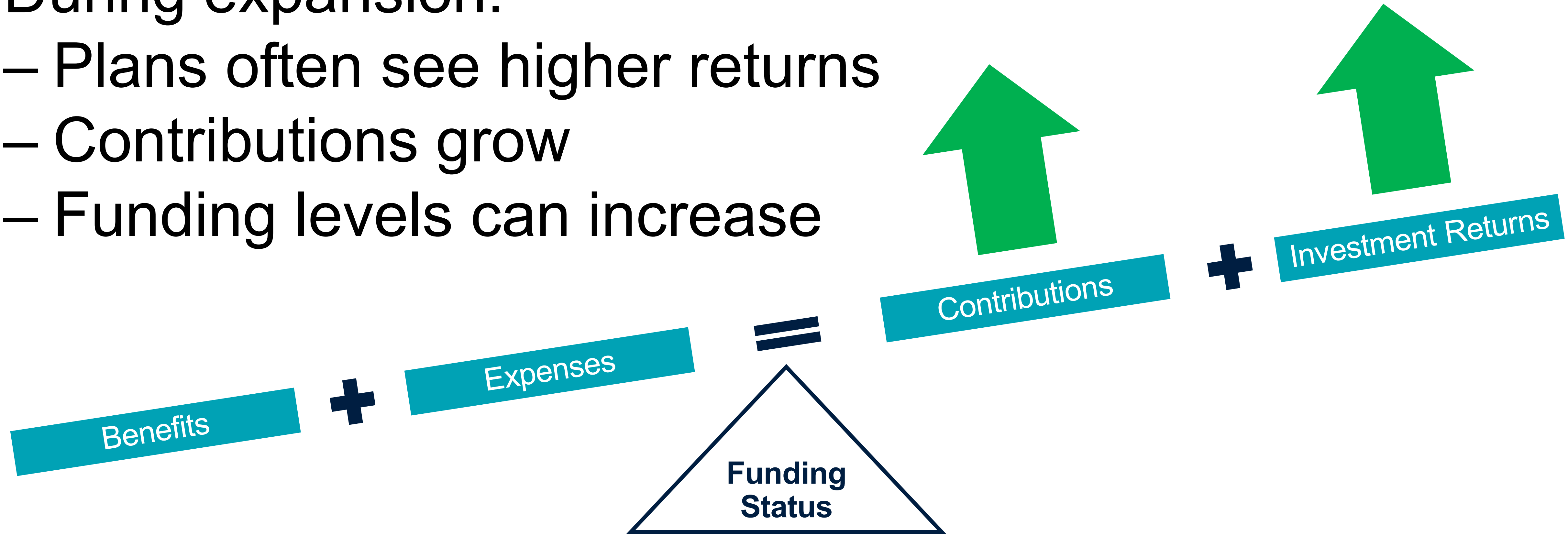
Impact of Business Cycles on **Retirement plans**

- **Investment Returns:** During downturns, investments held by pension plans may lose value, reducing the money available for future payments
- **Employer Contributions:** In weaker economic periods, employers may struggle to contribute as much to pension funds

Source: Schroders.

Retirement plans during **expansion**

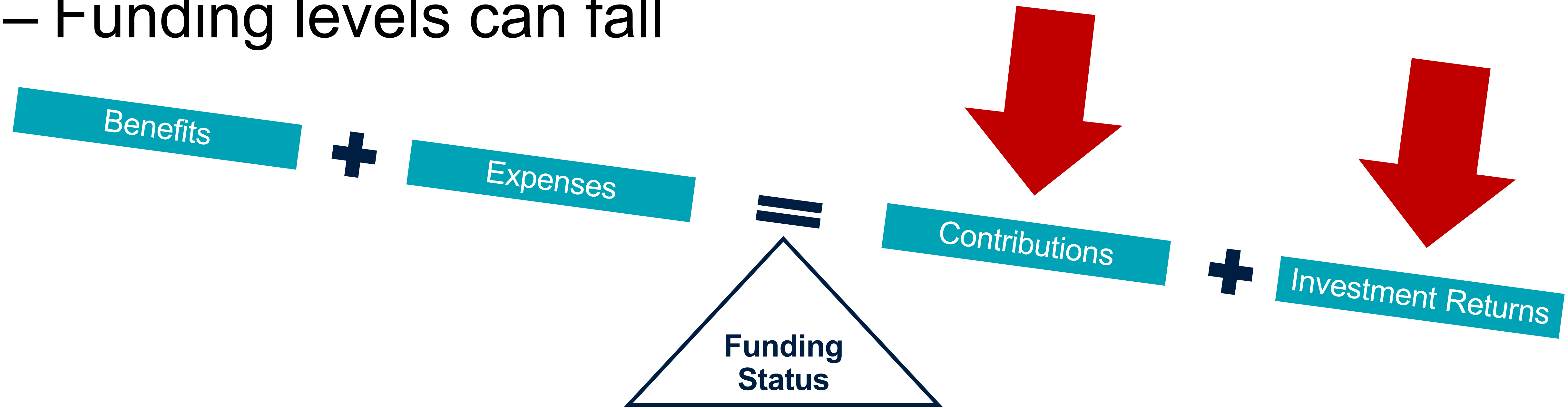
During expansion:
– Plans often see higher returns
– Contributions grow
– Funding levels can increase



Source: Schroders. Past performance provides no guarantee of future returns and may not be repeated.

Retirement plans during **contraction**

– Investments may lose value
– Contributions may decrease
– Funding levels can fall



Source: Schroders. Past performance provides no guarantee of future returns and may not be repeated.

Considerations for **Retirement Plans**

- **Diversification:** Long-term investing not market timers
- **Eliminate Emotional Investing:** Rebalance to target portfolio or within Investment Policy range
- **Fiduciary duties:** Acting solely in the interest of the investment plan participants and beneficiaries

Source: Schroders. The views shared are provided for informational purposes only and should not be interpreted as investment guidance or a recommendation to adopt a particular strategy. Diversification cannot ensure profits or protect against loss of principal.

Key Takeaways

- **Understanding the Cycle:** Recognizing where we are in the economic cycle (expansion, peak, contraction, trough) helps to anticipate impacts on plan funding, contributions, and investment returns
- **Plan Responsibly to seize opportunities and avoid risks:** Economic downturns can reduce asset values and employer contributions while economic upturns can create opportunities for investing

Source: Schroders. Past performance provides no guarantee of future returns and may not be repeated.

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