

Avoiding a “Self-inflicted Recession”

Key Takeaways

- Many investors today are worried about a recession.
- For investors with longer time horizons, investing during a recession is almost unavoidable.
- The good thing is that for long-term investors staying invested matters more than a recession.

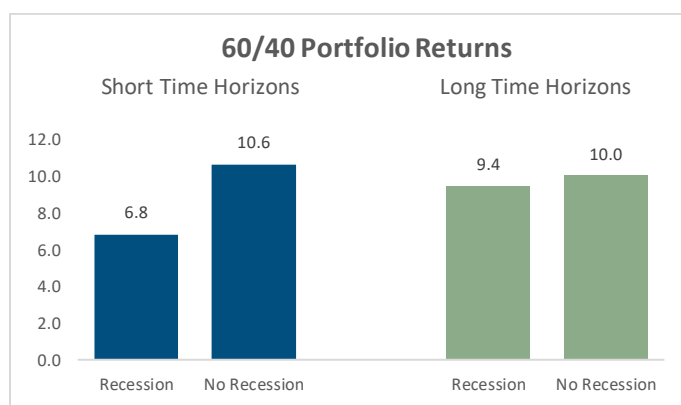
Recession fears

After the dramatic events in the banking sector, many investors are worried about a potential recession, and for a good reason. Recessions have real-world impacts on people’s financial security and well-being. Thankfully, recessions don’t happen that often. Historically, we experience a recession about every 7.5 years.¹ The longer your investment time horizon, the more likely you are to experience a recession. This can be an incredibly challenging experience. The good news is that for *long-term* investors, recessions don’t actually matter that much.

Time heals all wounds (mostly)

The chart on the right shows the average performance for a 60/40 portfolio² over *short time horizons* (rolling one-year periods, in blue) and over *long time horizons* (rolling ten-year periods, in green). We then separate those returns into periods that included a recession (“Recession”) and periods that did not include a recession (“No Recession”). Looking at the two blue bars on the left, you can see that over the *short-term*, periods with recessions were meaningfully lower than periods without recessions

(average one-year return of 10.6% without recessions, compared to 6.8% with recessions).



Over longer time horizons, however, the impact of recessions is only marginal. Looking at the two green bars on the right, you can see that over the *long-term*, periods with recessions were only 0.6% lower than periods without recessions (average ten-year return of 10.0% without recessions, compared to 9.4% with recessions). This is because longer periods tend to include full market cycles, which include both drawdowns and recoveries. To put that 0.6% difference in perspective, if you were uninvested for as little as six months during an average ten-year period, it would have the same return impact as a recession!³

Key takeaway

Investing in the face of a possible recession is really hard. The good news is that recessions don’t impact long-term returns that much. Over the long term, getting invested (and staying invested) is much more important than trying to time the next recession. We encourage investors to avoid a “self-inflicted recession” by maximizing their time in the market using a long-term investment strategy.

¹ Federal Reserve Bank of St. Louis, NBER based Recession Indicators for the United States from 1855 to 2023

² All 60/40 returns cover the period 1940 to 2022. 60/40 returns are composed of 60% S&P 500/40% US fixed income proxy. US fixed income proxy is composed of a combination of 5-year and 10-year US Treasury returns (from 1940 to 1976) and the US BBC Aggregate index (1976 to 2022). Sourced from Morningstar and Bloomberg

³ If an investor holds cash (bank savings) for half a year, and then invests in a portfolio which consistently returns 10.0% (average annual) for nine and a half years, the return over a ten-year period would be 9.4% (average annual). Assumes a 0.23% (annual) bank savings rate (the average bank savings rate on March 1, 2023, per bankrate.com).

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

Important Information

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal or tax advice. The information in this report has been drawn from sources believed to be reliable, but its accuracy is not guaranteed, and is subject to change. Investors seeking more information should contact their financial advisor. Financial advisors may seek more information by contacting AssetMark at 800-664-5345.

Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss. Actual client results will vary based on investment selection, timing, market conditions, and tax situation. It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Index performance assumes the reinvestment of dividends.

Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments. Bloomberg® and the referenced Bloomberg Index are service marks of Bloomberg Finance L.P. and its affiliates, (collectively, "Bloomberg") and are used under license. Bloomberg does not approve or endorse this material, nor guarantees the accuracy or completeness of any information herein. Bloomberg and AssetMark, Inc. are separate and unaffiliated companies.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission.
©2023 AssetMark, Inc. All rights reserved.

106023 | C23-20090 | 06/2023 | EXP 06/30/2023