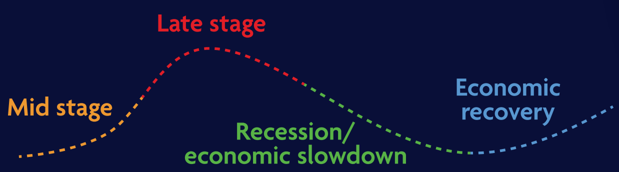
What could recession mean for financial markets?

Recession has been at the forefront of news headlines as economic growth has begun to stall across the globe. The UK fell into recession in the final quarter of 2023 which has raised questions about what this might mean for client's investments.

Here we answer what recession could mean for financial markets.

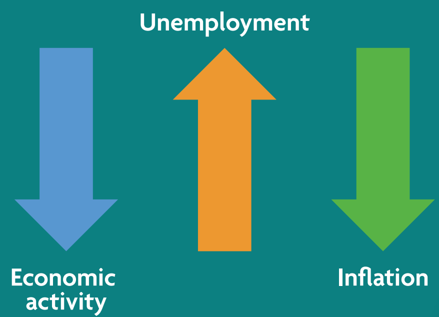
1 Economies move in cycles



Economic cycles are usually measured by the rise and fall of a country's gross domestic product (GDP). If GDP growth is positive then an economy is growing, and if it is negative then the economy is contracting.

2 Recession/downturn occurs when growth stalls

After reaching a peak, the recession phase of the economic cycle begins. In this stage, economic activity is shrinking, unemployment rates rise, and inflation begins to fall.



3 There are different depths and lengths of recession

Two economic cycles are never the same, they have ranged from two years or less to more than a decade, but on average lasted five years. The alternative to a recession is a soft landing where interest rates are raised to a level that brings down inflation and doesn't cause a severe recession.

The Dot-Com Recession
- Duration: 8 months
- GDP decline: -0.3%
- Peak unployement rate: 5.5%

The Great Recession
- Duration: 18 months
- GDP decline: -4.3%
- Peak unployement rate: 9.5%

4 Financial markets can react in different ways

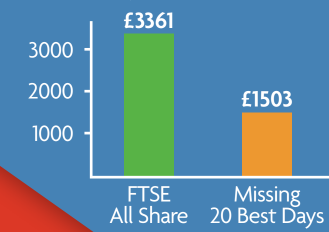
A recession doesn't always coincide with a down market, as stocks could be bouncing back by the time it has been confirmed the economy was in recession or it is over. Remember markets often move before events take place as investors position based on their outlook for future returns.

US Recession: 2007-2009

5 Staying invested reaps benefits

Staying invested through economic downturns is important for your long-term investment goals. Forecasting events that trigger market weakness is nigh on impossible. Fortunately, given time, markets have proven capable of shrugging off short-term falls. Selling out of your portfolio during downturns in markets means you could miss some of the best days of recovery.

FTSE All Share: 15yr return with £1k



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