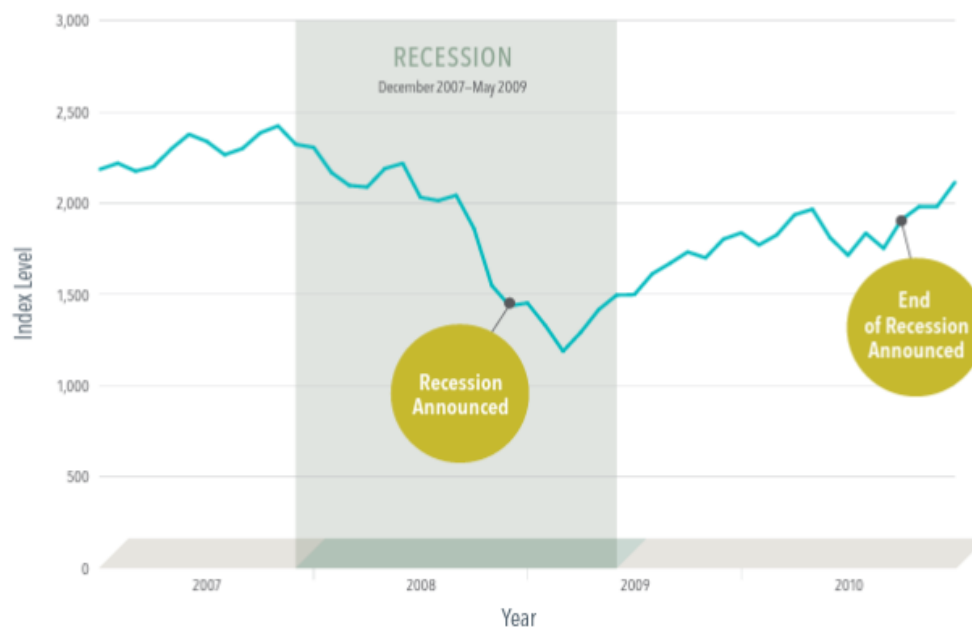


CLIENT QUESTION OF THE MONTH: The stock markets seem to be doing a little better, but I'm still hearing talk about a recession. Should I be worried?

- Equity markets have seen a much-welcomed reprieve recently with broad US, International, and Emerging Market indices up 11.6%, 15.3% and 6.9% QTD through 11/11/2022¹. However, looming recession headlines continue to spark angst with investors, who may be wondering what the impact might be if one does occur.
- The National Bureau of Economic Research (“NBER”) defines a recession as a significant decline in economic activity that is spread across the economy and that lasts more than a few months². However, the NBER’s official recession announcements are delayed from the actual recession periods.
- The global financial crisis offers an example of how markets incorporate expectations ahead of official recession announcements. **Exhibit 1** below shows the performance of the S&P 500 index from 2007-2010. The grey shaded area represents the actual time period of the recession (December 2007-May 2009), and the yellow circles indicate the dates when the NBER announced the beginning and ending of the recession, December 2008 and September 2010, respectively.
- By the time the recession was announced, the market had already experienced most of its decline. By the time the end of the recession was declared, the market had already experienced a significant recovery.

Exhibit 1: US Recession and Stock Market Performance During the Global Financial Crisis³

S&P 500 Index, January 2007 – December 2010



In US dollars. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. **Past performance is no guarantee of future results.** Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

- If we look at the recessions going back to the beginning of 1980, when the NBER began officially announcing recessions, two-thirds of the time the market had already reached its bottom prior to the formal NBER announcement as shown in **Exhibit 2** below.

Exhibit 2: Recession Announcements vs US Stock Market Lows

Peak Month	Announcement Month	US Market Low Month	Months from Announcement to Market Low
Jan-80	Jun-80	Mar-80	-3
Jul-81	Jan-82	Jul-82	6
Jul-90	Apr-91	Oct-90	-6
Mar-01	Nov-01	Sep-01	-2
Dec-07	Dec-08	Feb-09	2
Feb-20	Jun-20	Mar-20	-3

Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Business cycle peak and recession announcement dates sourced from the National Bureau of Economic Research. US market represented by the Fama/French Total US Market Research Index. The Fama/French Indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. See “Index Description” below.

- While talk of a recession can be discomfoting, history shows us that often the worst has already passed. Trying to time the markets during recessionary periods may cause investors to miss out on brighter days ahead.
- We think the most sensible approach is to remain disciplined with one’s asset allocation. If investors are considering a change to their asset allocation, this decision should be driven by changes to goals or risk tolerance rather than expectations of market performance.

1. The US market is measured by the Russell 3000; the International market is measured by the MSCI World ex USA, and the Emerging market MSCI Emerging Markets indices.
2. <https://www.nber.org/research/business-cycle-dating/business-cycle-dating-procedure-frequently-asked-questions>
3. Start and end dates of US recessions, along with announcement dates, are from the National Bureau of Economic Research (NBER). nber.org/research/data/us-business-cycle-expansions-and-contractions and nber.org/research/business-cycle-dating/business-cycle-dating-committee-announcements

Index Description

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French Website.

Results shown during periods prior to each index's index inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

This information is provided for registered investment advisors and institutional investors and is not intended for public use. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.