

BEHAVIORAL & FINANCIAL INSIGHTS

The Eventual Recession

Since early last year economists, market experts, and even corporate CEOs were predicting a recession for this year. Most of them said it would happen early in 2023.¹ A recession was the consensus view among experts, almost a foregone conclusion. With inflation surging to 9% last summer and the Fed aggressively raising interest rates, it was an easy story to sell...and believe.

Fast forward to the present. The same experts that said we would already be in a recession are now pushing their recession forecasts back to the end of the year, or even into 2024. Because recessions are normal functions of capital markets, eventually we expect to get one. So long as forecasters keep pushing out the date, they won't be wrong – just “early.” And that is the crux with financial forecasts: you have to be correct with *both* the prediction *and* the timing.

Recessions Are Not Equal

Recessions come in different sizes and durations. Some are prolonged and deep (the Global Financial Crisis) and some are brief and shallow. Others, like the COVID-19 recession, were deep but very brief. In fact, most people didn't even realize we were in an official recession because it was the shortest recession in history and the recovery was swift.²

Many investors associate recessions with markets going down. That has happened and can happen. However, markets have also gone up during recessions. So, even if one was able to accurately predict a recession, it doesn't necessarily mean we would then know how the markets would perform.

A Greater Risk

While many people focus on the risk of a recession occurring, I believe the greater risk is how investors respond to forecasts and the media-hyped expectations of a recession. After all, recessions don't cause people to miss their financial targets. It's investors' reactions and decision-making, too often influenced by their emotion, that impacts their financial success (or failure). I believe Peter Lynch was spot-on when he said:

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

1. <https://www.cnbc.com/2022/12/23/why-everyone-thinks-a-recession-is-coming-in-2023.html>
2. <https://www.cnbc.com/2021/07/19/its-official-the-covid-recession lasted-just-two-months-the-shortest-in-us-history.html>

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