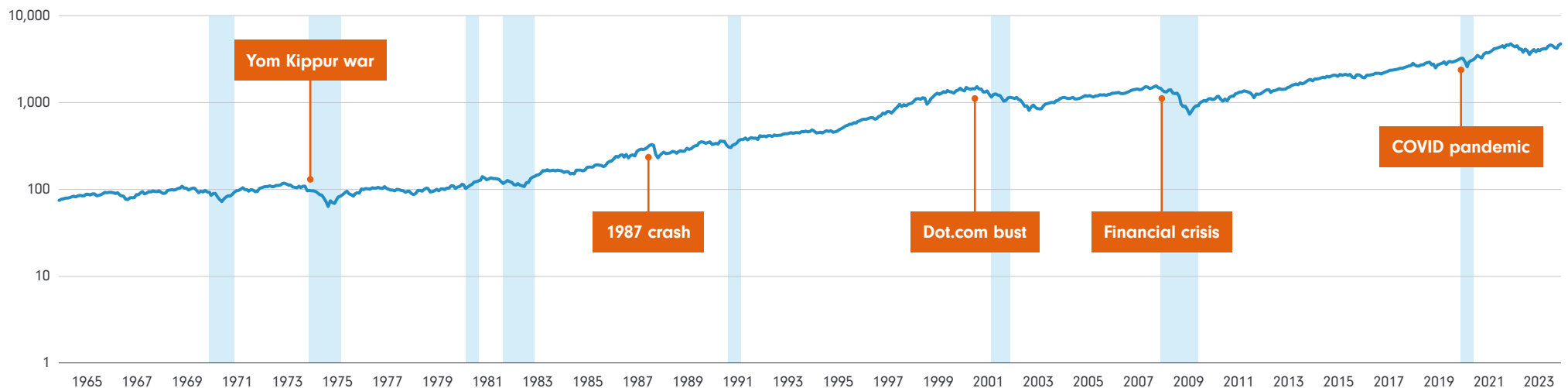


Markets don't wait for dawn to break

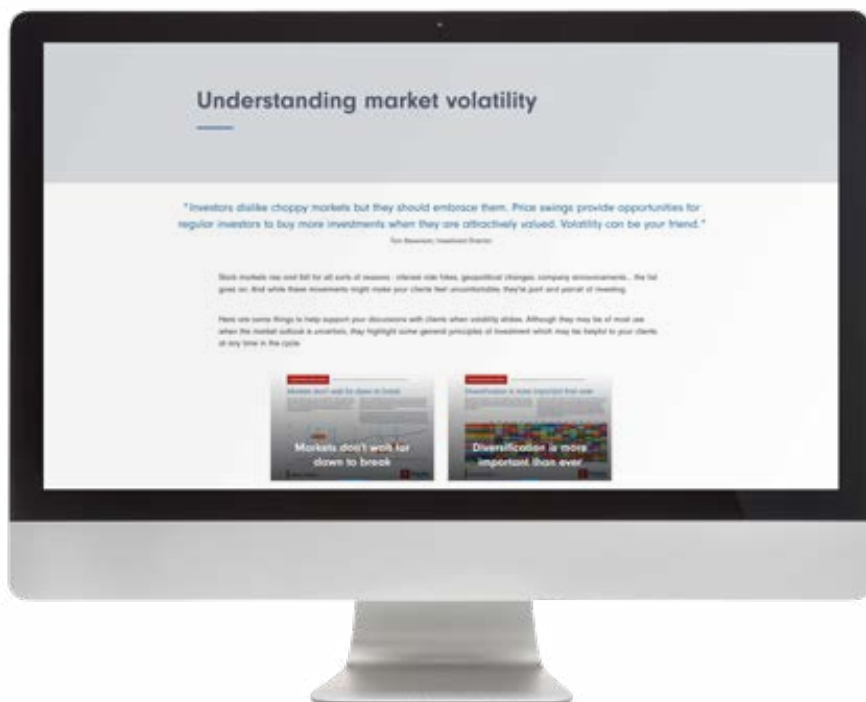
After a painful few years for investors, it's very understandable if clients are gloomy about the prospects for the stock market over the next year or so. In many ways, this is human nature – many individuals become more risk averse as their investments fall in value. However, an important historical lesson for clients is they shouldn't become more pessimistic about the markets as they fall. As Fidelity's Anthony Bolton once said, it's normally darkest before dawn.

Markets are invariably affected by recessions but crucially they normally pre-empt the economy. They start to fall before the economy enters recession but they usually start to rise before the economy starts to improve. This is illustrated in the chart below, which shows the performance of the US stock market over the last 60 years on a logarithmic scale. Periods of recession are shaded blue.

For six of the seven recessions shown, the stock market hasn't waited for the end of the recession before turning upwards. The one exception relates to the bursting of the dot.com bubble in 2000 and the reason the market fell further was arguably because of the 9/11 terror attack in 2001 rather than the recession itself. So, markets don't tend to wait for dawn to break before moving forward, they just wait for it to become a little less dark.



Source: S&P Dow Jones – index, National Bureau of Economic Research – recessions. 2023



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Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment.

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