

PERSPECTIVES

Long-Term Investors, Don't Let a Recession Faze You

Oct 23, 2023

Investors may be tempted to abandon equities and go to cash when there is a heightened risk of recession. But research has shown that stock prices incorporate these expectations and generally fall in value before a recession even begins.

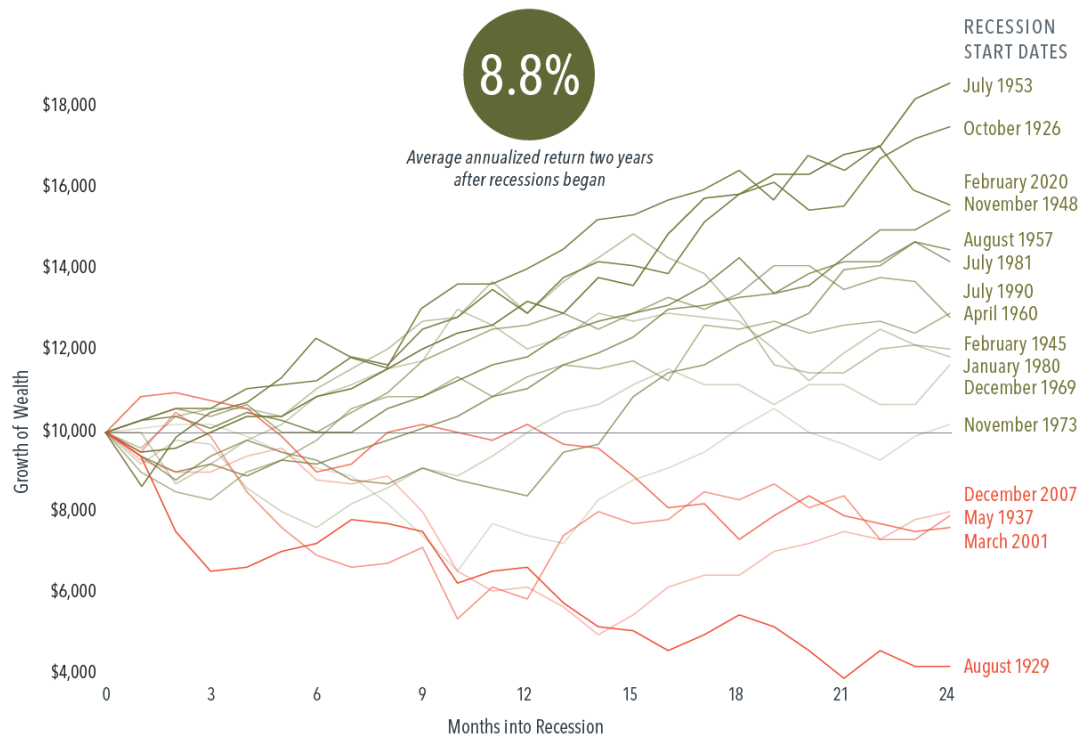
Across the two years that follow a recession's onset, equities have a history of positive performance. Data covering the past century's 16 US recessions show that investors tended to be rewarded for sticking with stocks. In 12 of the 16 instances, or 75% of the time, returns on stocks were positive two years after a recession began (see **Exhibit 1**). The average annualized market return for the two years following a recession's start was 8.8%. Looked at another way, a \$10,000 investment at the peak of the business cycle would have grown to \$12,145 after two years on average.

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Exhibit 1**Downturns, Then Upturns**

Performance of a hypothetical \$10,000 invested when a US recession began



Past performance is not a guarantee of future results. Data presented in the growth of \$10,000 chart is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment.

In USD. Performance includes reinvestment of dividends and capital gains. 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. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

Growth of wealth shows the growth of a hypothetical investment of \$10,000 in the securities in the Fama/French US Total Market Research Index over the 24 months starting the month after the relevant recession start date. Sample includes 16 recessions as identified by the National Bureau of Economic Research (NBER) from October 1926 to February 2020. NBER defines recessions as starting at the peak of a business cycle.

Recessions understandably trigger worries over how markets might perform. But a history of positive average performance following a recession can be a comfort for investors wondering whether or not they should move out of stocks.

GLOSSARY

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 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. 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.

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