
Are We Headed for a Recession?

Wes Crill, PhD
Head of Investment Strategists and Vice President

Jun 17, 2022

Just two years removed from the last US recession, negative stock returns and aggressive US Federal Reserve interest rate hikes have many investors concerned we are headed for another big “R”—if we’re not already there. But recessions are always identified with a lag. By the time one is called, the worst of its impact on markets has usually passed.

The National Bureau of Economic Research (NBER) identifies phases of the business cycle using a bevy of indicators, such as consumption and income data, employment rates, and gross domestic product growth. None of these measures has been consistently dominant in the determination of economic conditions, and certainly past US recessions [have come in all shapes and sizes](#). Recessions are therefore named retroactively, with the benefit of hindsight (and additional economic data that may be available with a lag).

Because recessions are proclaimed with a delay, rather than in real time, markets are often on the way toward a recovery by the time of the announcement. As shown in **Exhibit 1**, the stock market had already bottomed out prior to the announcement month in two-thirds of recessions since 1980.¹ In 2020’s recession, for example, the market’s low point came in March, three months before the announcement in June 2020. The takeaway for investors? If and when a recession is declared, we think the most sensible approach is to remain disciplined with one’s asset allocation; reducing exposure to stocks at that point may lead to missing out on brighter days ahead.

Exhibit 1**Fret Lag**

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.

LEARN MORE

[Long-Term Investors, Don't Let a Recession Faze You](#)

Gross domestic product: The total value of goods and services produced by, for example, a country over a set period of time.

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.

1. Prior to 1979, the NBER did not formally announce recessions.

This material is in relation to the US market and contains analysis specific to the US.

The information in this material is intended for the recipient's background information and use only. It is provided in good faith and without any warranty or representation as to accuracy or completeness. Information and opinions presented in this material have been obtained or

derived from sources believed by Dimensional to be reliable and Dimensional has reasonable grounds to believe that all factual information herein is true as at the date of this material. It does not constitute investment advice, recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. Before acting on any information in this document, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorized reproduction or transmitting of this material is strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

This material is not directed at any person in any jurisdiction where the availability of this material is prohibited or would subject Dimensional or its products or services to any registration, licensing or other such legal requirements within the jurisdiction.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd, Dimensional Japan Ltd. and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

Risks

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

UNITED STATES

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

Investment products: • Not FDIC Insured • Not Bank Guaranteed • May Lose Value
Dimensional Fund Advisors does not have any bank affiliates.

CANADA

These materials have been prepared by Dimensional Fund Advisors Canada ULC. The other Dimensional entities referenced herein are not registered resident investment fund managers or portfolio managers in Canada.

This material is not intended for Quebec residents.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or other distributions and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

AUSTRALIA and NEW ZEALAND

This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the

advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and the target market determination (TMD) that has been made for each financial product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to au.dimensional.com/funds to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED

Issued by Dimensional Ireland Limited (Dimensional Ireland), with registered office 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland. Dimensional Ireland is regulated by the Central Bank of Ireland (Registration No. C185067).

WHERE ISSUED BY DIMENSIONAL FUND ADVISORS LTD.

Issued by Dimensional Fund Advisors Ltd. (Dimensional UK), 20 Triton Street, Regent's Place, London, NW1 3BF. Dimensional UK is authorised and regulated by the Financial Conduct Authority (FCA) - Firm Reference No. 150100.

Dimensional UK and Dimensional Ireland do not give financial advice. You are responsible for deciding whether an investment is suitable for your personal circumstances, and we recommend that a financial adviser helps you with that decision.

Dimensional UK and Dimensional Ireland issue information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from Dimensional UK and Dimensional Ireland will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

NOTICE TO INVESTORS IN SWITZERLAND: This is advertising material.

JAPAN

For Institutional Investors and Registered Financial Instruments Intermediary Service Providers.

This material is deemed to be issued by Dimensional Japan Ltd., which is regulated by the Financial Services Agency of Japan and is registered as a Financial Instruments Firm conducting Investment Management Business and Investment Advisory and Agency Business.

Dimensional Japan Ltd.

Director of Kanto Local Finance Bureau (FIBO) No. 2683

Membership: Japan Investment Advisers Association

SINGAPORE

This material is deemed to be issued by Dimensional Fund Advisors Pte. Ltd., which is regulated by the Monetary Authority of Singapore and holds a capital markets services license for fund management.

This advertisement has not been reviewed by the Monetary Authority of Singapore, and should not be shown to prospective retail investors.

FOR PROFESSIONAL INVESTORS IN HONG KONG

This material is deemed to be issued by Dimensional Hong Kong Limited (CE No. BJE760) ("Dimensional Hong Kong"), which is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

This material should only be provided to "professional investors" (as defined in the Securities and Futures Ordinance [Chapter 571 of the Laws of Hong Kong] and its subsidiary legislation) and is not for use with the public. This material is not intended to constitute and does not constitute marketing of the services of Dimensional Hong Kong or its affiliates to the public of Hong Kong. When provided to prospective investors, this material forms part of, and must be provided together with, applicable fund offering materials. This material must not be

provided to prospective investors on a standalone basis. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice.

Neither Dimensional Hong Kong nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors. Financial advisors in Hong Kong shall not actively market the services of Dimensional Hong Kong or its affiliates to the Hong Kong public.

dimensional.com



https://my._cldee=9PNBCmoRoV2KC1hIzMGK7QkgKY0fFmBbC-0OBckfaTnRchow5pdf52VT2cTJwdJb&recipientid=fa9e3620fa4742639452d924f4a403b6&utm_source=ClickDimensions&utm_medium=email&utm_campaign=US%20V