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"The thing I find most interesting about investing is how paradoxical it is: how often the things that seem most obvious – on which everyone agrees – turn out not to be true."
- Howard Marks

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In the week of July 24th, 2022, Google Search Trends recorded its highest reading for the word "Recession" over the last twenty years[1]. More people Googled the word recession last year than they did in March of 2020, when the entire world was shut down, and even more so than in November of 2008, when the global financial system was on the brink of collapse. Even a quick scroll of the headlines to start this year show how many people are anticipating an economic recession[2].

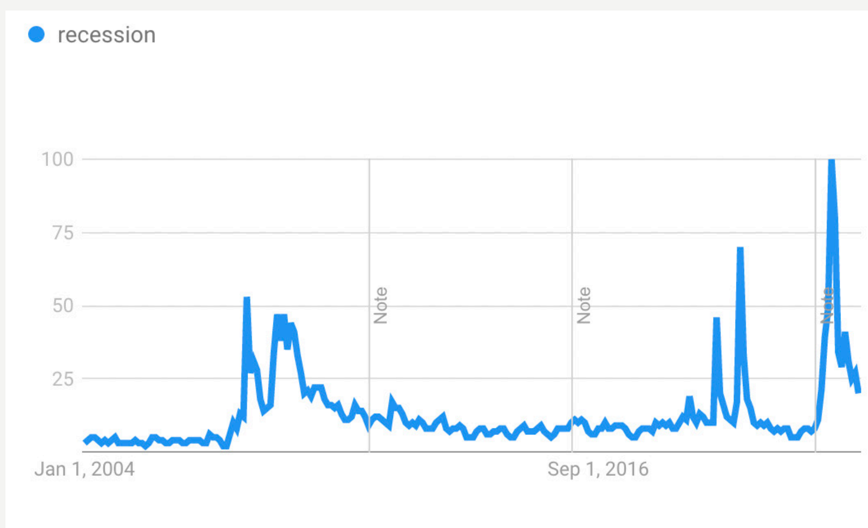
- CNBC: "Why Everyone Thinks A Recession is Coming in 2023"

- Franklin Templeton: "The Most Anticipated Recession Ever"

- Bloomberg - "Barclays Sees 2023 as One of the Worst Years for the World in Three Decades"

If we all knew the economy was going into the tank starting last July, then surely stocks must have gotten off to a horrid start this year, right? Actually, the S&P 500 is up around 5% to start the year and is up 2.3% since July 24th of last year. What about the economy? Hasn't the rapid rise in interest rates brought growth to a screeching halt? Incredibly, no. 517,000 jobs were created in January and the unemployment rate sits at 3.4%, its lowest level since 1951. Retail sales rose 3% in January from their December levels and the Atlanta Federal Reserve estimates GDP to grow 2.5% in the first quarter.

Google Search Trends for the Word "Recession"



United States. 1/1/04 - 2/24/23. Web Search.

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Investing for the long-term can often feel paradoxical when the short-term news seems so negative. What is particularly strange about the current environment is that the economic news is pretty positive, but is likely to result in a negative reaction for the market. A recent Barron's headline read - "Stocks Drop After Surprisingly Strong Jobs Report." [3] How could that be the case if stocks are priced on fundamental factors and the fundamentals are improving? The paradox resides in the Federal Reserve and interest rate policy continuing to march higher. If the economy remains strong, it could keep inflation high, which is what the Fed is trying to combat by raising interest rates. The market is worried that strong economic growth right now means higher interest rates in the immediate term, and ultimately weaker growth later this year or next. Markets are both reactionary to the current news as well as forward looking so we may be in a moment where good news is actually bad for the stock market.

So how does an investor win, if the market seems to carry ever changing paradoxes with it? It is important to both process the news of the moment while simultaneously weighing how it effects the long-term strategy we utilize for our clients. The market environment over the last year has been painful, but it has also created opportunities that have not been present for well over a decade. For instance, a one-year U.S. Treasury Bond yields approximately 5.1% as of this writing. The last time an investor could generate a return over 5% from an essentially risk-free asset was 2007. U.S. stocks are trading around historic average valuations, which has provided a good entry point for long-term investors based on historical data. Over the last 80 years, the S&P 500 has provided an average annualized five year return of 8.6%, not including dividends.[4] As we continue through this calendar year, it will be helpful for investors to keep in mind that good economic news may continue to bring volatility to both bond and stock markets, but also shows how resilient the economy is in spite of the sharp rise in interest rates over the last year.

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1: Google Trends - “Recession” -https://trends.google.com/trends/explore?date=all&geo=US&q=recession
2: CNBC - https://www.cnbc.com/2022/12/23/why-everyone-thinks-a-recession-is-coming-in-2023.html
Franklin Templeton - https://www.franklintempleton.co.uk/articles/clearbridge-investments/the-long-view-the-most-anticipated-recession-ever
Bloomberg - https://www.bloomberg.com/news/newsletters/2023-01-03/what-s-happening-in-the-world-economy-the-most-anticipated-recession-ever
3: Barrons - https://www.barrons.com/livecoverage/stock-market-today-020323/card/stock-futures-drop-on-tech-disappointment-eyes-are-on-the-jobs-report-cCEfoGSSh0lXhVDxJ8gL
4: All market data as of 2/24/2023 - UST Bond Yield data via St Louis Federal Reserve, S&P valuation data via JP Morgan, average market return via S&P Global