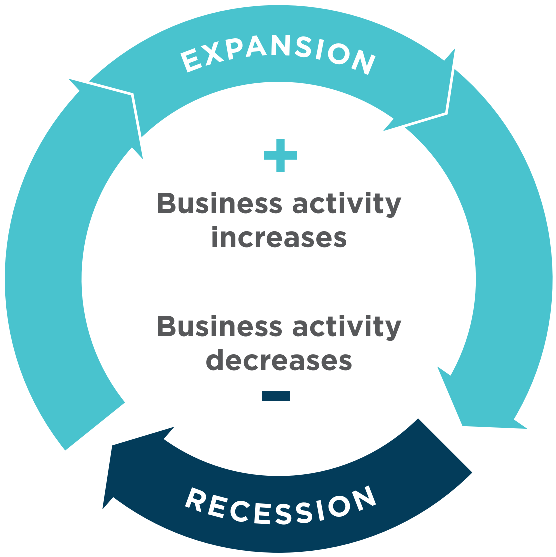
Understanding the business cycle may reveal new opportunities

Learn about the business cycle and where we are now, so you can make more informed choices about your investments.



The business cycle is a natural evolution that we see in every economy.

Business activity increases as companies produce new products and services that consumers want

Business activity decreases as the markets for these innovations mature and consumer spending slows

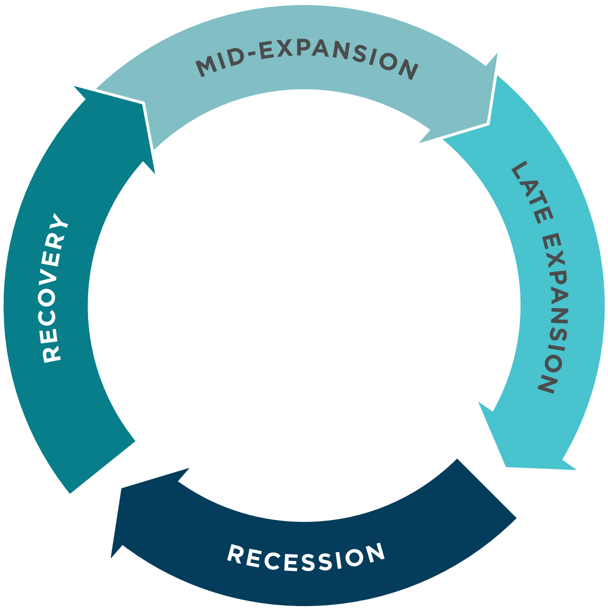
All investors should consider learning more about the business cycle because it may help identify investment opportunities.

The business cycle is a primary factor that drives **business performance**

Performance generally drives **investment values and returns**

Investors face risks as the business cycle **transitions from one stage to the next**

Those transitions also create **opportunities for informed investors**



During a full rotation, we see the business cycle transition through expansion and recession.

- Expansion has three stages: recovery, mid-expansion and late expansion
- Each stage has characteristics that help us identify it

When **recovery** begins economic growth accelerates.

- Employment growth begins again
- Inflation returns to a moderate level
- Interest rates remain steady
- The yield curve remains normally sloped

In **mid-expansion,** economic growth is typically moderate.

- Employment growth is steady
- Inflation starts to increase
- Interest rates begin to rise
- The yield curve flattens

As we reach **late expansion,** economic growth slows down.

- Employment growth slows
- Inflation reaches a peak
- Interest rate increases stop
- The yield curve inverts

During a **recession,** economic growth is negative.

- Employment declines
- Disinflation or deflation takes over
- Interest rates decrease
- The yield curve returns to a normal positive slope

The **yield curve** shows interest rates for U.S. treasury debt at issued durations—currently from four weeks to 30 years.

Disinflation is a slower rate of inflation, and **deflation** is when price levels actually decrease.

Certain asset classes typically perform better than others during the different stages of the business cycle.

↑ HISTORICALLY OUTPERFORMED ↓ HISTORICALLY UNDERPERFORMED

Recovery	Mid-expansion	Late expansion	Recession
↑ Small-cap stocks	↑ Large-cap stocks	↑ International stocks	↑ Commodities
↑ Emerging market stocks	↑ Mid-cap stocks	↑ Global real estate	↑ Emerging market stocks
↑ Commodities	↑ Intermediate U.S. bonds	↑ U.S. corporate high-yield bonds	↑ Mid-cap stocks
↓ Large-cap stocks	↓ Emerging market stocks	↓ Intermediate U.S. bonds	↓ Large-cap stocks
↓ International stocks	↓ International bonds	↓ International bonds	↓ International stocks
↓ International bonds	↓ Commodities	↓ Commodities	↓ Global real estate

Source: Factset data, 1977–2020

Work with a financial advisor to maintain a disciplined investment strategy throughout all stages of the business cycle.

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