

MARKET MINUTE

July 28, 2022

U.S. Economy Shrinks for 2nd Consecutive Quarter

The first reading of second-quarter gross domestic product (GDP) numbers were released earlier today, showing the U.S. economy fell by 0.9% between the first of April and end of June. It's the second consecutive quarter of negative growth – putting us into the traditional definition of recession.

However, the data about whether or not we're actually in a recession is conflicting. The U.S. is currently experiencing a strong job market, with the unemployment rate at 3.6%. The housing market is still fairly robust, although rising mortgage rates have slowed home sales and mortgage applications significantly in the past few months. The stock market seems to be rebounding from recent lows.

Despite this positive data, by the technical definition we are in a recession. The economy is currently facing a host of challenges, especially inflation and the rising cost of goods. The big question now is how long will this recession last?

Since World War II, the average recession has lasted about 10 months. We're already two quarters (6 months) into the current period of negative growth. If the average holds, that means we could have another six months of declining GDP.

But the current environment is a bit different than it was during past recessions – meaning it may not follow the average. The best comparison available is the recession from 1981-1982; the economic environment then was similar to today's, with high inflation and rising interest rates. That recession lasted from July 1981 to November 1982, a bit longer than the average at 17 months.

Right now, it's unclear how long the recession might last. Certain factors are contributing to the uncertainty, including a proposed spending bill and possible future rate raises by the Federal Reserve. Also, it's common for markets – and the economy – to experience jitters as we get closer to mid-term elections.

As always, the best approach is to stay focused on your long-term goals. Recessions and market downturns are part of the investing cycle. If you're concerned about the effects of a prolonged recession on your portfolio, we recommend contacting your financial professional for a comprehensive portfolio review.

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