



MASTERING THE ART: INVESTING AMIDST A RECESSION

Amidst the chaos of a recession, a select few investors thrive while others falter. What sets them apart? It's the mastery of the art of investing. In this article, we unravel the secrets to not only safeguarding your wealth but also making it grow during economic downturns. From decoding economic signals to uncovering secure investment options, we'll equip you with the tools to navigate the storm and position yourself for long-term prosperity. Don't let a recession hold you back; prepare to seize the moment and turn adversity into advantage. Your path to financial resilience starts here.

Recession Signals

A recession is a significant decline in economic activity that lasts for an extended period, typically two or more quarters. There are several warning signs that economists and analysts look for when trying to identify a looming recession. These signals are typically based on a combination of economic data, market trends and other factors that can indicate an impending downturn in the business cycle. They include the following:

- Decreased GDP growth
- Rising unemployment rates
- Declining consumer spending
- Reduced business investment
- Stock market decline
- Tighter credit conditions
- Decline in manufacturing activity
- Rising inflation
- Inverted yield curve
- Increased bankruptcies and defaults
- Falling housing prices
- Increased government debt/deficits
- Decreasing corporate profits
- External shocks (natural disasters, pandemics, global economic conditions and geopolitical conflicts)

Economic Analysis

Considering the recession signals, let's analyze the current economic landscape from a global and local perspective to determine the likelihood of an impending recession. In the United States, there are multiple indicators of concern. The unemployment rate continues to rise, accompanied by a consistent upward trend in interest rates. As at May 2023, the Central Bank Rate stood at 5.25%. Furthermore, the GDP growth rate has been consistently contracting, with Q1 2023 showing the weakest growth since Q2 2022. Additionally, the yield spread between the 10-year and 2-year Treasury bonds has been widening, currently at -85.1 basis points and the yield curve is currently inverted. However, it is worth noting that inflation has seen a downward trend from June 2022 to April 2023.

In Europe, the European Central Bank, as at May, has implemented seven consecutive rate increases in its efforts to combat high inflation. Similarly, in the UK, the Bank of England has raised the bank rate by 25 basis points to 4.5% in May 2023, marking the twelfth consecutive rate increase.

In China, there has been a significant decline in the trade surplus in May 2023, driven by a larger decrease in exports compared to imports. This decline in exports, the most severe since January 2023, is a result of weakening domestic and global demand, leading to a contraction in factory activity and increased unemployment rates.

The prevailing global economic uncertainty has cascaded onto developing nations, amplifying its impact. Within the context of Kenya, the prices of essential commodities such as food, fuel and electricity have surged, resulting in an accelerated cost of living and heightened inflationary pressures. Concurrently, interest rates are on an upward trajectory, signifying tightening monetary policies. The stock market has demonstrated a sustained decline, exemplified by the NASI index which stood at Kshs 103.69 as at 31st May 2023, reflecting a significant 19% decline compared to the same period last year. Moody's recent downgrade of Kenya's long-term foreign-currency and local-currency issuer ratings from B2 to B3, citing increased liquidity risks and worsening domestic funding conditions, may ultimately lead to tighter credit conditions. These factors, among others, strongly indicate the potential inevitability of an impending recession.

Suitable Investments

With the analysis of the current economic landscape complete, our attention now shifts to a crucial aspect: Identifying suitable investment options to navigate the challenges posed by an impending recession. Building upon the insights gained from our analysis of various signals and indicators, it becomes crucial to identify investment avenues that provide stability, potential returns and risk management. In the following section, we will explore a diverse range of secure investment options with a proven track record of success during economic downturns.

Government Securities (Treasury Bills & Bonds): They are stable and relatively immune to default risk. Amid recessions, shorter-term government securities are preferred because they offer flexibility, liquidity and lower exposure to interest rate risk, allowing investors to react quickly to market changes and take advantage of opportunities.

High-quality Corporate Bonds: Bonds issued by financially strong companies offer relatively higher yields than government bonds while maintaining a certain level of stability and low default risk.

Dividend-paying Stocks: Companies that have a history of paying dividends even during challenging economic times can provide a source of income for investors.

Defensive Stocks: These include sectors that have proven resilient in economic downturns, such as healthcare, consumer staples and utilities. These stocks are considered defensive because they offer products or services that are essential, leading to relatively stable demand regardless of economic conditions.

Blue-chip Stocks: These are shares of well-established, financially stable and large-cap companies. These stocks tend to be more resilient during recessions due to their strong market positions, diversified operations and consistent dividend payments.

Gold & Precious Metals: They have historically acted as a hedge during recessions. Investors turn to these commodities as a store of value during periods of economic uncertainty, as they tend to retain their worth when other investments decline.

Real Estate: Real estate, whether direct or through REITs, can be a suitable investment due to its potential for rental income, long-term appreciation, portfolio diversification and opportunities in distressed properties.

Cash & Cash Equivalents: They offer liquidity and flexibility during recessions, allowing investors to seize opportunities and provide a buffer for emergencies, but caution should be exercised due to potential erosion of returns by inflation and limited growth potential.

Tips for Investors to Thrive, Not Just Survive in a Recession

- **Have a Plan:** Analyze your current financial situation, set clear goals and risk tolerance levels. Avoid emotional decision-making and only choose investments that meet your financial needs.
- **Prioritize your spending:** Cutting back on non-essentials and prioritizing your spending to protect your financial health.
- **Reduce your debt:** High-interest debt like credit card debt can be harmful during a recession, so focus on paying it down as quickly as possible.
- **Invest in quality over quantity:** Companies with solid financial standings and a track record of consistent growth can provide stability during a market downturn.
- **Have a long-term focus:** Stay focused on your long-term investment strategy and avoid making rash decisions based on short-term market fluctuations. Building wealth takes time and patience.
- **Get professional advice:** Consult a financial advisor to help you navigate the complexities of investing amid a recession.

- **Stay informed and updated on economic news & trends:** Follow economic indicators such as GDP growth, inflation, unemployment rates and interest rates in order to make informed investment decisions.
- **Diversify to protect:** Spread your investments across different asset classes, sectors and geographies to reduce risk and increase chances of positive returns.

Why should you consider investing during a Recession?

- **Lower stock prices:** During a recession, the stock market typically experiences a significant decline, resulting in lower stock prices. Investors could potentially benefit from the age-old 'buying the dip' approach, while continuously assessing the extent of damage to prices.
- **High-quality investments become more affordable:** During a recession, some high-quality investments, such as blue-chip stocks, may become more affordable. This can be an opportunity for investors to buy these stocks at a lower price and potentially reap the benefits in the long-term.
- **Increased growth potential:** As the economy recovers from a recession, companies that have been hit hard may experience a significant upside as they adapt to the new economic environment. Investing in these companies early can provide significant returns.
- **Efficient time for investment growth:** Investing during a recession allows investors to reap long-term returns from holding the assets through recovery.

SUMMARY

In the volatile realm of a recession, mastering the art of investing is key to financial triumph. In conclusion, remember this: knowledge is power, strategy is key and opportunities await the bold. Our exploration has barely scratched the surface of what lies ahead. There are untapped markets, innovative approaches and undiscovered paths to financial success waiting to be explored. Therefore, as an investor continue your quest, expand your horizons and let the art of investing propel you towards unimaginable success. The adventure doesn't end here. This is just the beginning!

For enquiries about the information contained in this research report, please contact us on the address below:

CONTACT US

Actuarial Services (EA) Ltd,
26th Floor, Old Mutual Tower,
Upper Hill Road, Upper Hill, Nairobi Kenya.
P. O. Box 10472 - 00100, Nairobi, GPO Kenya.

Phone: +254 708 710 028 || +254 786 710 028

Email: info@actserv-africa.com || **Website:** www.actserv.co.ke



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