Santander Asset Management

Are you a bull or a bear?

The economic cycle and your portfolio

Investors of all kinds tend to sit up and take notice when global financial organisations like the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) announce economic projections.

These regular announcements typically set out projections for global growth, flag up any opportunities and risks and give a sense of where we are in the economic cycle.

There have been some significant changes in recent months. As recently as January 2020 the IMF predicted a rise in global growth from a projected 2.9% in 2019 to 3.3% in 2020. But by March 2020 the OECD were predicting a fall in global growth to 2.4%.

About the economic cycle

Like the seasons of the year, each cycle follows a particular rhythm. It has four stages - expansion (growth), peak (growth tailing off), contraction (recession) and trough (the bottom of the recession), before expansion resumes. Unlike the seasons however, economic cycles typically run over years rather than months and the duration of each stage can vary significantly. Which means it's very difficult to predict exactly when one stage of the cycle will end and the next one will begin.

Where are we in the cycle now?

Stock market ups and downs are to be expected at all stages of the economic cycle. It's the prevailing direction of travel that matters when it comes to assessing where we are in the cycle now.

Following the financial crisis of 2008/9 we entered a long expansion phase. But economic performance can be set back by events that affect human behaviours and how we choose to trade and invest. Politics, the climate crisis, trade disputes, conflicts and pandemics are all examples of these.

Learn more

Read our 'Short guide to economic cycles'.

Get the latest

Our experts offer monthly and quarterly insight into markets and the economy.

With the OECD's more pessimistic recent growth forecast, and extended stock market falls making headlines in February and March 2020, only time will tell if this means we've now hit peak and are entering a new contraction phase.

What do economic cycles mean for investors?

Economic cycles are an important backdrop for investors to be aware of. In the short to medium term they may affect the returns you can reasonably expect to achieve. In the longer-term they may also affect the time it takes to achieve your investing goals.

The mature end of an expansion phase generally features slowing economic growth, increasing inflation and more challenges in borrowing money. Stock markets would likely remain high but start to tail off as investors become more wary.

Beyond the peak, into contraction, stock market growth generally stalls, becomes increasingly volatile and the prevailing direction of travel may then be downwards for a time. For investors who are in it for the longer-term and are willing and able to take the risk, this can be a time of opportunity to buy more investments ahead of the next expansion phase.

Diversification remains key

Diversification is important at all stages of the cycle but knowing you have an effective strategy in place can be particularly reassuring as the potential for economic contraction approaches. Diversification is about making sure your investments are spread across different asset classes - shares, bonds, property and cash for example - to ensure that when some assets lose value, you still have money in others that are likely to be doing better. This is because economic conditions that are bad news for some asset classes can be good news for others.

For example, the peak period of an economic cycle will typically see shares level out but commodities (things like oil, metals and agricultural goods) perform more strongly, particularly if central banks cut interest rates to stimulate economic activity.

Remember the risk-return trade-off?

With investing there is always a trade-off between risk and reward.

For example, you may be tempted to shift out of shares entirely during a downturn. But that may not be a good idea if you're looking to maximise your growth over the longer term. You would miss out on the benefits of still being invested in them during the next growth phase of the cycle. The early stages of the growth cycle are when stock markets tend to perform most strongly, and cash and bonds less so.

There's also a risk of missing out if you get out of shares too soon in anticipation of a downturn. Past performance isn't necessarily a guide to future performance, but for instance an investor who did this before the dotcom bubble burst 20 years ago would have missed out on a return from the S&P 500 index of 26% in 1998 and 19% in 1999, the last two full years of the dotcom rally.[1]

Learn more

Read 'Risk matters: an introductory guide' for a closer look at the risk-return trade-off and what it means for you.

Bulls, bears, hawks and doves

Animal metaphors are an unavoidable part of investment jargon. Here's our quick guide to four of the most common, and what they mean.

- **Bull** - a bull market is a positive one, with prices rising and money flowing in from investors. A 'bullish' investor is one who feels confident about markets.
- **Bear** - the opposite. A bear market is often defined as having seen falls of at least 15-20% over at least two months. An investor who is 'bearish' is one who feels pessimistic about the outlook.
- **Hawk** - usually applied to central bankers or economists who are concerned about inflation and think action (such as an interest rate hike) is merited.
- **Dove** - the reverse of a hawk, usually applied to a central banker or economist who isn't concerned about current inflation levels.

[1] Macrotrends - S&P 500 Index - 90 Year Historical Chart

How working with experts can help

Whether you are feeling bullish or bearish, all of this emphasises the value of expert investment management that can help you get your asset mix right at each stage of the economic cycle.

Multi-asset funds are just one route for this that you can consider. These provide a one-stop-shop for diversification, with investments spread across different asset classes and sectors. The fund manager will adjust the proportion invested in different assets over time, as the economic cycle and market conditions change, keeping the fund's portfolio in line with its stated risk profile and objectives. Giving you peace of mind that – while investments can always go down as well as up - your investment risks are being managed effectively.

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. Shares, bonds, property, cash and alternatives are all examples of asset classes.

Bonds: A bond is a loan issued by a government or a company. When you buy a bond, the issuer promises to pay a certain amount of income until the bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the bond. This is known as creditworthiness.

Commodities: A raw material or product that has a market value and can be traded on an exchange. Examples include, precious metals such as gold, industrial metals such as aluminium or agricultural goods such as wheat.

Diversification: Spreading your money across different investments to help manage risk.

Inflation: Measures the increase in price of selected goods and services in an economy over a period of time.

Portfolio: a group of investments that are managed together to meet a particular objective.

Property: Property may be difficult to sell and can demonstrate significant declines in value due to changes in economic conditions and interest rates.

Shares (often referred to as Equities or Stocks): In investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the shares themselves.

Important Information

This material is for information only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

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