ARE WE HEADING TOWARDS THE RECESSION WALL? EXPERTS QUESTION THEMSELVES

At the end of September, stock markets closed at the lowest level recorded in 2022. The S&P 500, like the Dow Jones Industrial Average, is firmly in bear market territory.
In fact, during the last days of the month, it fell by 24%, the worst marker since November 2020.
Moreover, the Fed announced a further 0.75% hike in interest rates, the fifth in a year and the third consecutive of ¾ of a point.

Is it all about inflation?

It might be, considered that the Fed has admitted several times that reducing inflation (the highest recorded in forty years) remains its number one priority.

Obviously, the Federal Reserve is well aware that its decisions are balanced on a knife-edge, given the risk of triggering increasing unemployment and of starting a real recession.

It is also true that the geopolitical tension surrounding the conflict in Ukraine does not seem to be easing, that the energy and food crisis caused by the war is reaching worrying peaks and that China, even today, is still struggling with its zero-Covid policy.
All this contributes to keeping inflation high and fueling it, like a dog chasing its own tail.
The mix of these elements also increases high volatility on the financial markets, which have been particularly nervous for several months now.
Everyone seems to be waiting for some good news which, however, is struggling to arrive, while the clouds on the horizon are getting darker and darker.

The International Monetary Fund has lowered its global growth forecast for 2022 and 2023 to 3.2% and 2.9% respectively, confirming that a recession for the next year is highly probable, even if it will not affect all continents in the same way.

In fact, the majority of experts questioned in the framework of the WEF Chief Economists Outlook's survey expects that the lowest growth will be recorded in Europe and in China, followed by Sub-Saharan Africa and Latin America. Instead, the United States, MENA and South Asia could see moderate growth.

The financial markets in the coming months

Long faces are seen. We are a long way from the days when Fed policies did not cause concern.
Many financial analysts are convinced that the markets will remain turbulent in the coming months.
Others, more pessimistic, think that the situation could get even worse (with a further pullback of 10-20%), believing that a bottom has not been hit for the moment.

The common feeling will remain uncertainty, good and bad news coming in a whirlwind, which will only increase volatility.
They also seem to be certain that we are observing an exceptional economic situation (much closer to a recession than a simple slowdown) which can't be comparable to any other previously experienced on the markets.

For the first bright spots, many experts suggest the middle of next year, and today it seems a long way off.

How to invest today?

September and even more October are known as unsatisfactory months on the stock markets and this year the trend does not seem to be different.

The golden advice is not to panic, to continue investing and to ensure portfolio diversification.
In this specific moment, diversification must be taken literally, beyond stocks and bonds, which would be better to have in multiple industries and sectors, it is recommended to invest in assets that will act as a hedge: commodities and natural resources.

All this, however, must not be at the expense of long-term investing strategies, such as bonds, given that a more bullish market is expected precisely for bonds (plain vanilla).

Also, this is a good time to invest in growth companies' stocks that were previously considered too expensive and are now much more affordable.

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