PERSONAL FINANCE

Some experts say a recession is coming. Here's how to prepare your portfolio

PUBLISHED SAT, JUL 2 2022•9:00 AM EDT

Kate Dore, CFP®
@KATEDORE

SHARE

KEY POINTS

- The S&P 500 on Thursday capped its worst six-month start to a year since 1970.
- Some 68% of chief financial officers expect a recession to occur during the first half of 2023, according to a CNBC survey.
- Experts suggest diversifying your portfolio, including bonds despite falling prices, and adding to cash reserves.

CNBC TV
Shark Tank WATCH LIVE
UP NEXT | Shark Tank
07:00 pm ET
Listen

Months of stock market volatility, surging inflation and rising interest rates have left many investors wondering if a recession is coming.

The stock market tumbled again on Thursday, with the S&P 500 capping its worst six-month start to a year since 1970. In all, it's down more than 20% year to date. The Dow Jones Industrial Average and Nasdaq Composite are also down significantly since the beginning of 2022, dropping more than 15% and nearly 30%, respectively.

Meanwhile, consumer feelings about the economy have plummeted, according to the University of Michigan's closely-watched Survey of Consumers, measuring a 14.4% decline in June and a record low for the report.

More from Personal Finance:
Inflation is making Fourth of July celebrations more expensive than ever
'It's like going to the DMV online': How to buy Series I bonds
Here are 3 ways to deal with inflation, rising rates and your credit

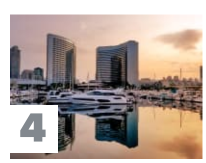
Some 68% of chief financial officers expect a recession to occur during the first half of 2023,

TRENDING NOW

Child psychologist: The No. 1 skill that sets mentally strong kids apart from 'those who give up easily'

Here's how much money it takes to be considered wealthy in 12 major U.S. cities

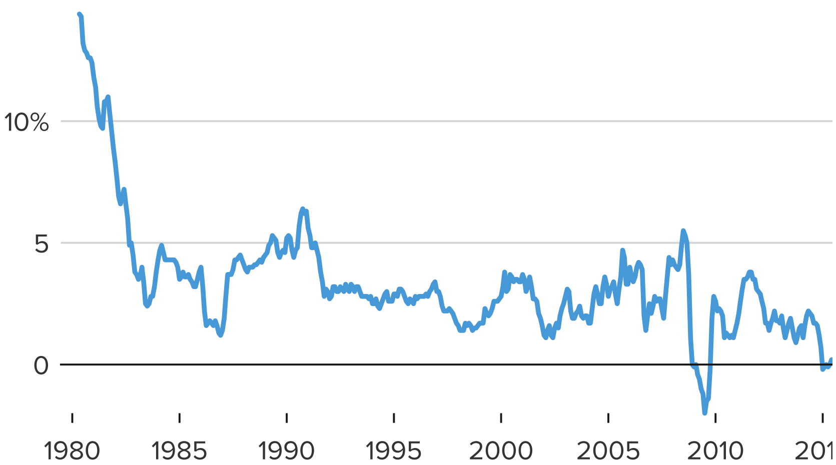
Rooftop shooter kills at least 6 at July Fourth parade in Chicago suburb, gunman still at large



Rent prices are starting to cool down: The 5 cities with the most significant decreases according to CNBC's CFO survey. However, expert forecasts vary about the possibility of an economic downturn.

Consumer price index

All items in U.S. city average, percent change from year ago.



Note: Data is seasonally adjusted.

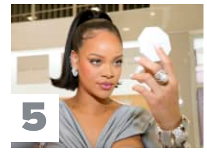
Chart: Gabriel Cortes / CNBC
Source: The Federal Reserve Bank of St. Louis via FRED

"We all understand that markets go through cycles and recession is part of the cycle that we may be facing," said certified financial planner Elliot Herman, partner at PRW Wealth Management in Quincy, Massachusetts.

However, since no one can predict if and when a downturn will occur, Herman pushes for clients to be proactive and make sure their portfolio is ready.

S&P 500 year-to-date

WATCHLIST +

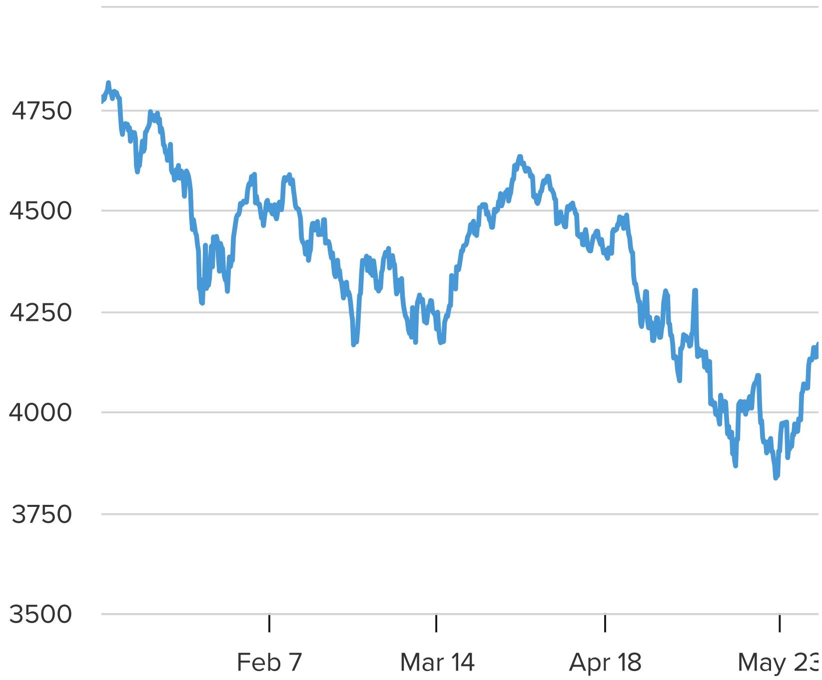

5 Rihanna is now worth $1.4 billion—making her America's youngest self-made billionaire woman

Sponsored Links by Taboola

FROM THE WEB

"Move your money in 2022," Wall street legend warns
Chaikin Analytics

Gronk's Favorite "Dressy" Shoes Feel Like Walking O...
Wolf & Shepherd



cnbc.com

Diversify your portfolio

Diversification is critical when preparing for a possible economic recession, said Anthony Watson, a CFP and founder and president of Thrive Retirement Specialists in Dearborn, Michigan.

You can reduce company-specific risk by opting for funds rather than individual stocks because you're less likely to feel a company going bankrupt within an exchange-traded fund of 4,000 others, he said.

> **"Value stocks tend to outperform growth stocks going into a recession.**
>
> — Anthony Watson
>
> FOUNDER AND PRESIDENT OF THRIVE RETIREMENT SPECIALISTS

He suggests checking your mix of growth stocks, which are generally expected to provide above-average returns, and value stocks, typically trading for less than the asset is worth.

"Value stocks tend to outperform growth stocks going into a recession," Watson explained.

International exposure is also important, and many investors default to 100% domestic assets for stock allocations, he added. While the U.S. Federal Reserve is aggressively fighting inflation, strategies from other central banks may trigger other growth trajectories.

Revisit bond allocations

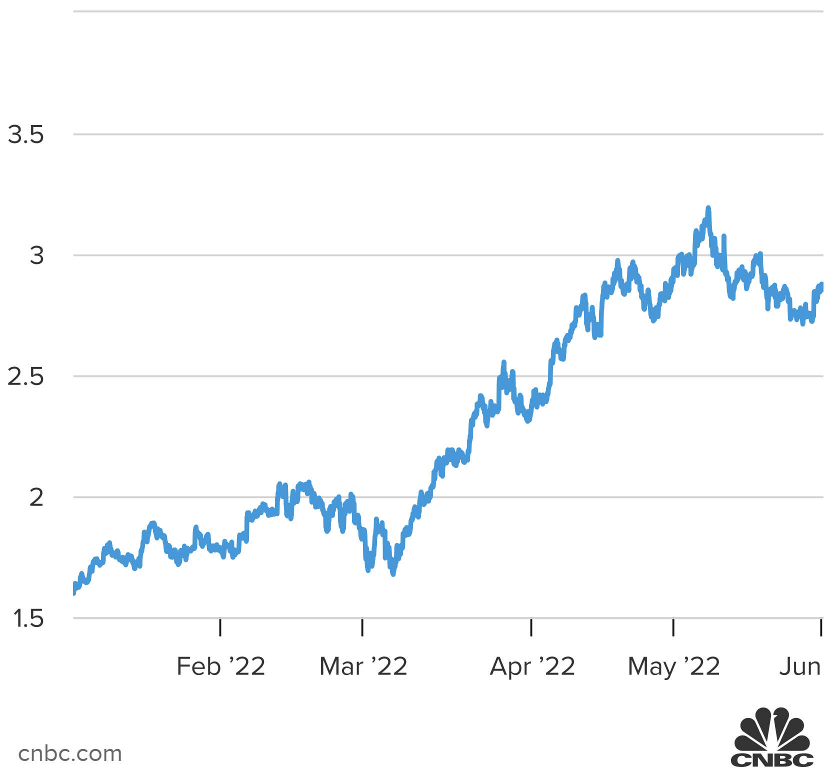
Since market interest rates and bond prices typically move in opposite directions, the Fed's rate hikes have sunk bond values. The benchmark 10-year Treasury, which rises when bond prices fall, topped 3.48% on June 14, the highest yield in 11 years.

Despite slumping prices, bonds are still a key part of your portfolio, Watson said. If stocks plummet heading into a recession, interest rates may also decrease, allowing bond prices to recover, which can offset stock losses.

"Over time, that negative correlation tends to show itself," he said. "It's not necessarily day to day."

U.S. 10-year Treasury yield year-to-date

WATCHLIST +



Advisors also consider duration, which measures a bond's sensitivity to interest rate changes based on the coupon, time to maturity and yield paid through the term. Generally, the longer a bond's duration, the more likely it may be affected by rising interest rates.

"Higher-yielding bonds with shorter maturities are attractive now, and we have kept our fixed income in this area," Herman from PRW Wealth Management added.

Assess cash reserves

Amid high inflation and low savings account yields, it's become less attractive to hold cash. However, retirees still need a cash buffer to avoid what's known as the "sequence of returns" risk.

You need to pay attention to when you're selling assets and taking withdrawals, as it may cause long-term harm to your portfolio. "That is how you fall prey to the negative sequence of returns, which will eat your retirement alive," said Watson at Thrive

during periods of deep losses with a significant cash buffer and access to a home equity line of credit, he added.

WATCH NOW

VIDEO 03:42

We are in a mild recession, says Wharton's Jeremy Siegel

Of course, the exact amount needed may depend on monthly expenses and other sources of income, such as Social Security or a pension.

From 1945 to 2009, the average recession lasted 11 months, according to the National Bureau of Economic Research, the official documenter of economic cycles. But there's no guarantee a future downturn won't be longer.

Cash reserves are also important for investors in the "accumulation phase," with a longer timeline before retirement, said Catherine Valega, a CFP and wealth consultant at Green Bee Advisory in Winchester, Massachusetts.

> **I do tend to be more conservative than than many because I have seen three to six months in emergency expenses, and I don’t think that’s enough.**

— Catherine Valega

WEALTH CONSULTANT AT GREEN BEE ADVISORY

“People really need to make sure that they have sufficient emergency savings,” she said, suggesting 12 months to 24 months of expenses in savings to prepare for potential layoffs.

“I do tend to be more conservative than many,” she said, noting the more widely-touted suggestion of three to six months of expenses. “I don’t think that’s enough.”

With extra savings, there’s more time to strategize your next career move after a job loss, rather than feeling pressure to accept your first job offer to cover the bills.

“If you have enough in liquid emergency savings, you are providing yourself with more options,” she said.

Shark Tank

WATCH LIVE

UP NEXT | **Shark Tank** 07:00 pm ET