SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Cycles

The U.S. economy and stock market have trended higher over long sweeps of time. These long-term, rising trends have consisted of a series of shorter term cycles. The beginning, end and magnitude of each cycle are known with certainty only after the fact. Cycles do repeat but their exact characteristics have varied widely. These uncertainties are challenges to determining appropriate investment strategies. Nevertheless, familiarity with historical cycle patterns and current relative positions of cycles within trends can inform portfolio decisions. A review of economic and market cycles can provide perspective for investing yet ahead.

PERSPECTIVE

A high-level assessment of cycle patterns and relative positions requires some measurement choices. The assessment here captures rolling three-year horizons. The measure of cycle magnitude is the variance of annualized three-year growth rates relative to the long-term trend average. Two important economic measures as well as a familiar U.S. stock market index have been assessed.

Cycle assessment of real growth for the overall U.S. economy is shown in Chart I. Patterns of above average and below average rates of growth are clear. Also clear is the unbroken below average growth dating from 2006 and the pandemic-induced post WWII low reached in 2020. Massive monetary and fiscal policy responses have been brought to bear and appear to be restoring real growth. Unknown at this time is the rate of real growth that can be sustained beyond the near term.

Payroll employment cycle patterns, shown in Chart II, loosely mirror patterns of real economic growth. The patterns differ as employment is not the only component of economic activity. More recently, payroll employment growth rates hovered near and in some periods above the trend average as the absolute level of employment reached an all-time high of 152.5 million jobs. The pandemic shutdown resulted in 22.4 million job losses in just two months. Over 14 million jobs have returned, but continuing fiscal support programs may be influencing the job recovery's sustainability.

Stock markets certainly move in cycles with patterns quite distinct from those of the economy as seen in Chart III. The average three-year return for the Dow Jones Industrial Average ("DJIA") has been well above the growth rate of the economy. The range of above average and below average performance is much wider as well. Following the bear market of the Great Recession, the DJIA has posted more above average three-year returns than not. Certainly, below average return periods have occurred, but their shortfall pales in comparison to the shortfalls of overall real economic growth and employment gains. The brevity of the pandemic sell-off muted the impact on DJIA returns.

CHART I

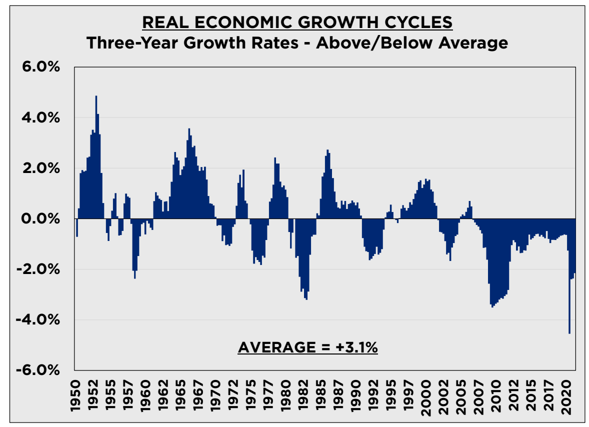


CHART II

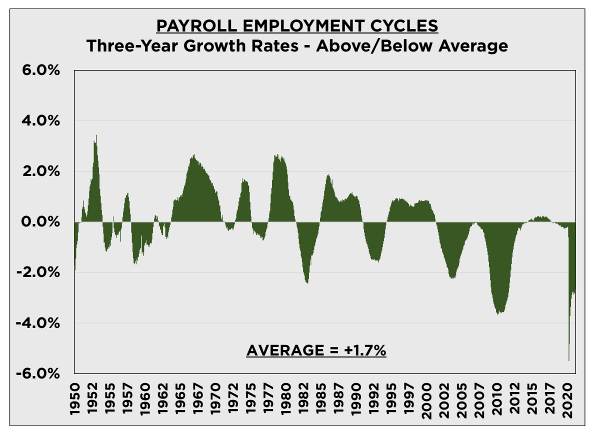
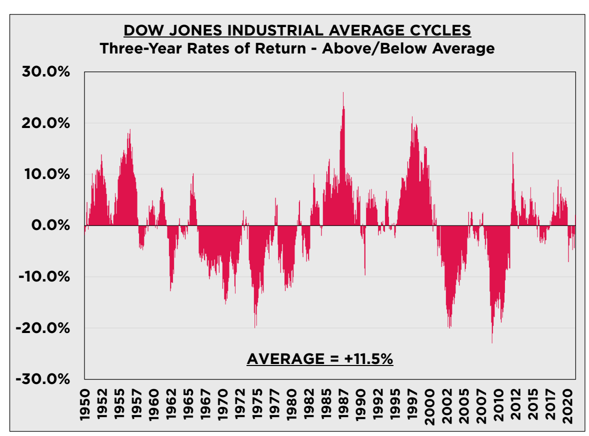


CHART III



INVESTMENT IMPLICATIONS

While economy and market cycles continue, patterns unfold for each investor that determine the appropriateness of any investment strategy. These patterns reflect the convergence of individual goals, time horizons and tolerance for risk. With a clear understanding of these patterns and an awareness of economy and market cycles, portfolios can be constructed and managed to improve the odds of achieving investment goals.