



CFRS RESPONSE TO THE FEARS OR REALITY OF A U.S. RECESSION SOON?

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DEAR CFRS CO-WORKERS, MEMBERS, AND RETIREES:

There seems to be lots and lots of use of the “R” word on the news lately so here’s an annoying update from me!

There is very, very little we or you can do in the near term so enjoy the ride and remember we’re long-term investors for a reason. There have been 12 to 14 recessions (depending on who counts) in the U.S. since the end of WWII and volatility like this is baked into all long-term planning.

CFRS plans to stay the course, maintain diversification in the CFRS portfolio and protect retirement assets as best we can...otherwise let time do the hard work for the Retirement systems.

So... Recession? The most widely accepted definition of a recession is two consecutive quarters of declining GDP. The United States is now facing the familiar precursors of a recession, including rising interest rates on the back of high inflation. The Federal Reserve took initial action and raised its benchmark rate by 75 basis points -- the biggest increase since 1994 -- to a range of 1.5%-1.75%.

US Opinion is divided, and many economists are warning of a recession, but some Wall Street bulls are still saying those fears are overblown. Again, the familiar precursors of a recession have arrived: an inverted yield curve on March 29 for the first time since 2019... and rising interest rates on the back of high inflation (8.5% in March), with COVID uncertainty and disruptions caused by Russia’s invasion of Ukraine thrown in.

So... Recession? There is a lot of fear, with the Federal Reserve's moves to raise interest rates followed by rising inflation currently the biggest fear factors. Those along with everything else going on set off a volatile stock market, with the S&P 500 even sliding into a bear market.

However? Oil prices appear set to decline since it also appears that distortions have been driving volatility. Europe is in the grip of historically high energy prices today, but markets and futures are pricing in a lower risk premium ahead and the oil price generally appears set to fall further... European gas and Chinese LNG prices are already beginning to fall and will (hopefully) continue to do so through the rest of the year.

If it is a recession? Rebalancing portfolios to the target allocation is usually a good idea, but not during a market sell-off. When things are bad institutional investors should try their best to hold on to investment allocations. Selling during market lows can be one of the worst things you can do for your portfolio since it locks in 100% of losses. When the market evens out down the road, rebalancing to allocation targets should be in order.

Again... The short version: We plan to stay the course, maintain diversification in the CFRS portfolio and protect retirement assets as best we can... otherwise let time do the hard work for the Retirement systems.

There is a lot of negative and even Poly Anna news out there... so please let us know if you have additional questions.

Regards,

CITY OF FRESNO RETIREMENT SYSTEMS

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Retirement Administrator