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Opinion: It's Time To Prepare For A Recession

So I heed this warning!!

The economy is close to entering a recession, perhaps as soon as this year. To avoid taking too much of a financial hit, Americans will need to prepare.

Last summer, we wrote that US economic growth was already starting to slow and the economy would keep decelerating in the coming months. That is already proving to be true, with year-over-year GDP growth declining from 12.2% in the second quarter of 2021 to 3.5% in the first quarter of this year. The Commerce Department commonly cites GDP growth as the annualized percentage change from one quarter to another, but those numbers tend to gyrate much more than the year-over-year figures. Nevertheless, both data points show the slowdown in economic growth between 2021 and 2022.

And there is a toxic brew of external economic headwinds, including the war in Ukraine and Covid lockdowns in China, resulting in supply shocks that boost inflation and slow growth.

A key part of the inflation problem is linked to the massive $3.9 trillion in fiscal stimulus injected into the economy in 2020 and 2021, alongside well over a hundred billion dollars in bonds the Federal Reserve was buying each month since the height of the pandemic.

Of course, when economic slowdowns take hold, it makes sense for the Fed to try and shore up economic growth by cutting interest rates. But in this case, the Fed is trying to make up for failing to react to inflation sooner. We warned last year that inflation was getting out of hand. The central bank should have taken action last summer.

Now the Fed has little choice but to tighten policy by aggressively hiking rates to curb inflation. That materially increases the risk of pushing the economy into a full-blown recession.

It was only six months ago that the Fed began slowing its asset purchases. And it finally started rate hikes just two months ago, but at that point overall inflation had already shot up to a 40-year high, impacting Americans in every corner of the country.

For the average investor, it's hard to find a place to hide. Recessions are usually accompanied by outright bear markets, with stocks falling by well over 20%, and often by much more. And with the Fed now hiking rates aggressively, the bond market is no safe haven. Equities and bonds are riskier than usual, and surging inflation means that even cash under the mattress is losing its purchasing power.

What can Americans do? One answer may be to do nothing, and just try and ride out the volatility without trying to time the market. For those willing to lock up some money for at least a year, inflation-protected Treasury bonds could be part of the mix.

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Consumers might consider cutting back on non-essential spending, especially avoiding splurging on big-ticket items. With recession storm clouds looming, it is a good idea to sock some money away for a rainy day.

And for job seekers, because recessions lead to major job losses, now is the time to update the resume and make any career moves while the job market is still hot. Keep in mind: The relatively secure jobs are with companies whose products or services customers need day in and day out — even during a recession — making such firms less vulnerable to the economy's troubles.

There will be more difficult economic news to come. And prudence calls for skepticism about any soothing words from the Fed, the Biden administration or Wall Street bulls about a hoped-for soft landing. But preparing ahead of time can help soften the blow.

Having missed the opportunity to raise rates last year, the Fed is now risking recession in order to tame inflation. As a result, realistically and objectively, it's time to be on guard.