Recession Risk Rising: How Does it Impact Your Retirement Plan?

Description

Interest rate hikes are increasing the risk of an upcoming recession. “We now see the odds of a recession as roughly 15% in the next 12 months and 35% within the next 24 months,” said Jan Hatzius, **Goldman Sachs** chief economist in a note to clients. “11 out of 14 tightening cycles since World War II have been followed by a recession within two years,” warned Hatzius.

Here’s how your retirement plan may be impacted.

Your work

During our working years, our active income is a key source of income and is an essential building block of our retirement plans. It’s best to have regular income coming in without any disruption. Otherwise, your retirement plan may be set back, or you’ll have to change it.

Unfortunately, during recessions, it’s inevitable that the unemployment rate will spike, and people will have a heightened risk of losing their jobs. To reduce your chance of disrupted income, you might opt to earn income from multiple sources, including side gigs and investments. Additionally, always work on your personal and professional development whenever possible.

Your investment portfolio

Investments are a key component of many people’s retirement plans. How will a recession impact your investments? Market crashes often appear around recessions. During the onset of the pandemic, there was a brief recession in 2020, and a significant market correction that witnessed the Canadian stock market falling by about a third. The recession before that time was triggered by the global financial crisis of 2008, around which time there was a major market crash that saw the stock market losing about 40% of its value.

One way you can reduce the impact of recessions on your investment portfolio is by focusing on income generation and having a long-term investment mindset. A long-term investment horizon makes sense for retirement planning anyway.

By focusing on the investment income generation and the income safety, you can ignore the short- to medium-term volatility of securities. If you picked quality businesses to generate income, you should see rising investment income and stock price appreciation in the long run.

It would be helpful to know how much income you're earning from investments every month and plan your spending so that you have cash buffers for those lower-income months.

Fortis stock example

Fortis (TSX:FTS)(NYSE:FTS), a regulated electric and gas utility, will essentially experience no impacts from recessions. People and businesses need to use its products and services through gloomy and bright economies, which is why Fortis stock is a top Canadian Dividend Aristocrat with a dividend-growth streak of almost half a century!

The quality utility has stayed profitable with little volatility in its earnings through market cycles. Its business is so predictable that over the next few years, top management aims to increase its dividend by about 6% per year. Fortis stock's recent dividend yield is 3.3%, which is higher than interest income and the stock market's yield of about 2.5%.

Unfortunately, the stock has been bid up. So, it's not the best time to buy right now. Investors looking to buy this recession-resilient stock should wait for a better buying opportunity, possibly during a market correction of more than 20%.

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