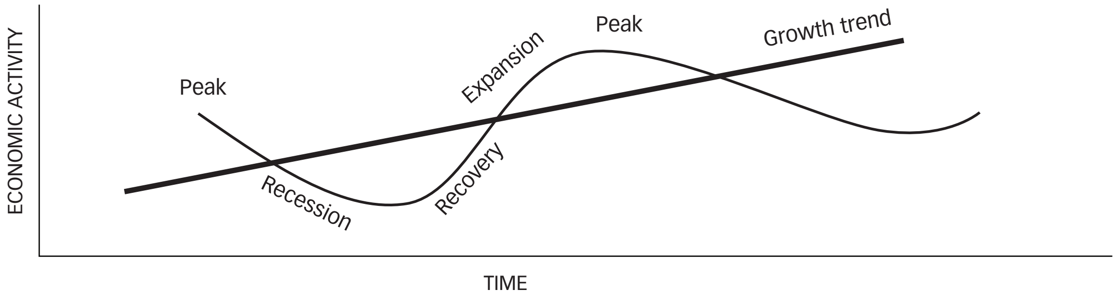
Moving forward

Four stages of the business cycle



Who's up, who's down

Asset class performance in different cycles

BUSINESS CYCLE	EQUITY	FIXED INCOME	OTHER ASSET CLASSES
Peak Shift from equity to fixed income	Sectors which are non-discretionary or which benefit from high inflation tend to do well e.g. healthcare, materials, consumer staples, utilities and energy.	While this period is conducive for bond yields, the yields start to come off. It's a good time to start allocating more towards quality grade bonds.	This is a good period for commodity sector including gold as prices are high, creating healthy gains.
Recession Fixed income over equity	Recession phases generally yield negative returns for equity asset classes as business tends to slow down with negative sentiments. Barring some sectors like consumer staples (e.g. food producers), healthcare and utilities reflecting non-discretionary consumer spending. Sectors like technology and financials tend to underperform.	Possibly the best time for fixed income investments as investors tend to look for safe assets and risk off approach. It is good to be in quality fixed income i.e. investment grade bonds versus high yield bonds and even treasuries as safe havens. Look for long duration during this time.	This is generally a negative period for commodity returns as demand and price start to fall and inventories are high, and have not fallen in line with the drop in sales. Real estate tends to underperform.
Recovery Equity and reit over fixed income	Recovery is the best period due to accommodating monetary and fiscal policies and strong momentum for corporates and consumer spending. Sectors representing discretionary and expansive spends tend to do better e.g. technology, consumer discretionary, industrial and financial.	Due to moderate inflation and rising but benign interest rates, fixed income tends to do well. Together with bonds, this period is good for high yield bonds as credit becomes strong on account of strengthening corporate balance sheet and margins. It's good to start reducing the duration of the portfolio.	This marks a good time period for real estate and commodity sectors as momentum picks up.
Expansion Generally conducive for most asset classes	Expansion phase is generally the best times for different asset classes and cyclical sectors. Investors still prefer equity asset classes in comparison to fixed income due to higher income / yield being generated.	This period is good for both high yield and investment grade bonds at the back of continued credit growth.	Commodity and gold continue to hold up during this phase.

Source: CFA