American Century Investments®

THE HARD TRUTH ABOUT SOFT LANDINGS

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History indicates recessions — not soft landings — typically follow Federal Reserve rate-hike campaigns.

KEY TAKEAWAYS

Where's the economy headed?

Some economists believe the U.S. is headed toward a soft landing. We're not convinced.

We think a recession seems more likely.

We think a soft landing is a longshot, and history and recent data suggest a recession is more likely.

What are the investment implications?

In our view, some investments, like high-quality stocks and bonds, may weather recessions better than others.

WHERE'S THE ECONOMY HEADED?

SOME SEE SIGNS OF A SOFT LANDING		WE SEE RECESSION RISK
The U.S. Commerce Department said third-quarter 2023 annualized gross domestic product (GDP) surged to 5.2%, the fastest pace in two years.	→	… but the gain was largely due to unsustainable factors — a consumer spending spree and business inventory replenishments.
Since peaking at a 41-year high of 9.1% in June 2022, annual headline inflation has steadily declined.	→	… but core inflation remains two times the Federal Reserve (Fed) target, and overall, consumer prices are up nearly 18% since January 2021.
The U.S. economy added more than 2.4 million jobs in the first 10 months of 2023, and the unemployment rate has remained below 4%.	→	… but government and part-time jobs have accounted for many of the gains. The number of Americans out of the workforce has also risen, holding down the unemployment rate.

GDP: U.S. Bureau of Economic Analysis.
Inflation: Data from 1/1/1981-10/31/2023. Source: U.S. Bureau of Labor Statistics.
Jobs: Data from 1/1/2023-10/31/2023. Source: U.S. Bureau of Labor Statistics.

SOFT LANDINGS HAVE BEEN RARE

The Fed has completed 12 tightening cycles since 1960. Only four ended in soft landings.

In each soft landing, we noted:

- ✓ No inflation spike.
- ✓ A modest pace of Fed tightening.
- ✓ An easing of bank lending standards.

This combination of characteristics helped keep the slowing economy from stalling and slipping into a recession.

What Happened After the Fed Raised Rates?

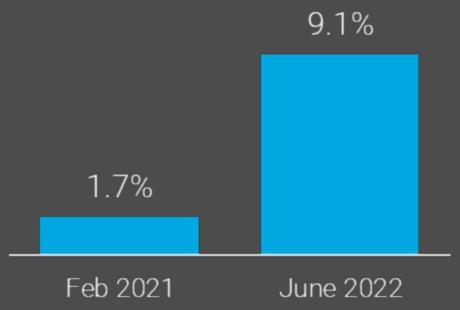
TIGHTENING CYCLE		TYPE OF "LANDING"
1	1959	Recession
2	1965-1966	Soft Landing
3	1969	Recession
4	1973	Recession
5	1976-1980	Recession
6	1980	Recession
7	1983-1984	Soft Landing
8	1986-1989	Recession
9	1994-1995	Soft Landing
10	1999-2000	Recession
11	2004-2006	Recession
12	2015-2018	Soft Landing

Data from 1/30/1959—9/29/2023. Source: FactSet.

RECESSION SEEMS MORE LIKELY

The key drivers of prior soft landings are absent today. Instead, the opposite conditions exist. We believe pressures from these and other factors may trigger a recession by spring 2024.

Inflation spiked sharply, with headline inflation surging from 1.7% in February 2021 to 9.1% 16 months later.



The Fed hiked rates at a record pace of 5.25 percentage points from March 2022 through July 2023.

Banks tightened their lending standards for all consumer and business loans in 2023.

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WHAT ARE THE INVESTMENT IMPLICATIONS?

Our analysis shows that certain investments have been more durable than others in a recession.

INVESTMENT	WHY?
Stocks of quality companies in defensive sectors like utilities, health care and consumer staples	Regardless of the economic backdrop, people still need electricity, health care, food and other staples.
Stocks of quality companies with competitive advantages	Companies with market-leading products and services may overcome adverse conditions better than their competitors.
Long-duration securities and strategies in fixed-income allocations	As interest rates decline, bonds with longer durations may realize greater price appreciation than shorter-duration securities.
High-quality corporate and securitized bonds	High-quality bonds may provide income benefits and a potential cushion against the volatility that often accompanies economic downturns.

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CHARACTERISTICS OF A RECESSION

Economy
GDP declines across the economy for multiple quarters.

Employment
The unemployment rate rises meaningfully.

Monetary Policy
The Fed cuts interest rates.

Source: American Century Investments.

END NOTES

Headline inflation: A measure for rising prices for consumer goods and services, or equivalently, a declining value of money.

Core inflation: A measure for rising prices that excludes food and energy, which tend to be volatile.

Duration: An indicator that measures the price sensitivity of a fixed-income investment to changes in interest rates. The longer the duration, the more a fixed-income investment's price will change when interest rates change.

Federal Reserve Bank (Fed): U.S. central bank responsible for monetary policies affecting the financial system and the economy.

Federal funds rate: An overnight interest rate that banks charge each other for loans. It's an interest rate that's mentioned frequently within the context of the Federal Reserve's interest rate policies.

Gross domestic product (GDP): A measure of the total economic output in goods and services for an economy.

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Generally, as interest rates rise, the value of the securities held in the fund will decline. The opposite is true when interest rates decline.

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.