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Key points:

1. Recession period comparison
2. How the economy reacted to the recession from 1980 to 2020 : The last 6 recessions
3. The relationship between the economy and share market

Data source: for S&P 500 companies

<https://www.economicsobservatory.com/does-the-stock-market-reflect-the-economy>

<https://www.rbcgam.com/en/ca/learn-plan/investment-basics/whats-the-relationship-between-the-stock-market-and-the-economy/detail>

<https://www.macrotrends.net/2526/sp-500-historical-annual-returns>

https://www.macrotrends.net/2526/sp-500-historical-annual-returns

1. Recession period comparison



Chart, bar chart

Description automatically generated

The 1990s were the longest period of economic growth in American history up to that point. The collapse of the speculative dot-com bubble, a fall in business outlays and investments, and the September 11th attacks, brought the decade of growth to an end.

1. How the economy reacted to the recession from 1980 to 2020

GDP and unemployment declined. Covid 19 lasted only two months, but it hit the worst.

The rates of GDP and unemployment were the highest

Chart, waterfall chart

Description automatically generated

1. The relationship between the economy and share market

Diagram

Description automatically generated

The graph below shows it is a negative relationship between GDP declined and Time since last recession

Chart, scatter chart

Description automatically generated

Several studies (Dimson et al. [2002], Ritter [2005]) found that the correlation between stock returns and GDP can be negative

The graph “ GDP Growth and S&P 500 Returns 1980 – 2000, GDP was quite stable. In comparison, we can see S&P\_500 had dramatic fluctuations. The highest point and lowest point were 29.30 and -39.20% Chart

Description automatically generated with medium confidence

Chart, scatter chart

Description automatically generated

The graph above showed that there was no correlation between GDP and S&P 500 companies

Conclusion: it is concluded that GDP usually has a negative trend whenever there is an economy recession: high unemployment rate. In contrast, share return still performs well although it has fluctuations.

Limitation:

It cannot predict the future share price because of the world volatility and ongoing Ukraine war