Shoring Up For A Recession

risk management strategic planning

Summary: While talk of a pending recession is nothing new, we highlight some things for consideration in preparation.

A study by a university in Singapore finds children who are told lies by their parents tend to lie more as adults. They were also found to be more disruptive, experience guilt and shame, be more selfish and manipulative. Looks like telling the truth is still good.

The truth about recession has ramped up as well recently. While talk of a pending recession is nothing new and has been circulating among economists for the past few years, now the biggest banks are talking. Some of the largest banks are now predicting that a recession is likely to hit within the next 1Y.

According to Bank of America Merrill Lynch's (BAML) monthly survey of institutional investors, 34% of respondents believe a recession is imminent within the next 12 months. In the wake of ongoing tension in the trade war between the US and China, Morgan Stanley also recently predicted that a recession will hit within the next 9 months if tensions between the two nations persist.

Meanwhile, economic indicators that have traditionally been viewed as indicators of a recession are also tilting towards a potential downturn for the economy, along with the continued market uncertainty.

The key at this point is to be aware of this, as you continue to be diligent with your stress testing and adjust any elements of your portfolio as the stress testing results reflect.

Given this reality, you would be well served to map out or review plans on how best to handle a recession, particularly when it comes to stress testing scenarios and those assumptions.

One of the most important things to address is the minimum costs necessary to continue operations, both when it comes to maintaining critical functions, as well as discretionary services and business lines. Taking time to review these areas a bit more closely, while creating a cost management plan for each before a recession will provide your management with the time to more carefully review options, if needed.

Similarly, you should include the impact a recession could potentially have on your business as part of your strategic planning during this part of the year. In particular, focus on any ways to lessen the impact on your capital or lending activities.

On the flip side, now is the time to also look for any areas where a recession could actually present opportunities. While fintechs and internet lenders may have been successfully luring customers away from traditional banks, many may be forced to scale back their business in a downturn. For community bank teams, preparing for things before they happen can just make good sense.

Finally, an uptick in M&A activity could result, so now may also be the time to review whether or not your bank is positioned to benefit from such opportunities. Your team may want to consider whether M&A is an area to pursue now, while there is still time to do so, in a careful and methodical way.

Although you are likely already planning for a potential downturn, we thought it could be helpful to provide some tips.

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