

Subject: Greenleaf Newsletter: Is a Recession Coming? Also, a Home Insurance Checkup When Inflation is High.

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From: Greenleaf Financial Group

To: jhartman@greenleaf-fg.com

***Hello Kathleen,
Welcome to Our Client Newsletter***

In the May Issue:

- **Is A Recession Coming? What Would It Mean to Investors?**
- **Question: With High Construction and Materials Costs, How Can I Be Sure My Home Insurance Won't Fall Short if I Need to File a Claim?**
- **Market News: A Week of Gains at Last.**

**Is A Recession Coming?
What Would A Recession
Mean to Investors?**

Talk of a recession has been on the news recently as the Federal Reserve has signaled the need for several interest-rate rises to curb stubbornly high inflation.

However, recessions come in many lengths and magnitudes. An economy can not grow forever -- our resources are not infinite -- and sometimes it has to shrink. When we have two consecutive quarters of a decline in gross domestic product (GDP), then a recession has officially occurred.

A severe long-lasting recession is economically unpleasant with large layoffs and a meaningful stock-market decline. A mild recession, however, is often over quickly and forgotten mere months later.

The most recent recession was caused by the pandemic

**Question: With High
Construction and
Materials Costs, How
Can I Be Sure My Home
Insurance Won't Fall
Short if I Need to File a
Claim?**

Answer: If your home is damaged by fire, lightning, wind, or another covered cause of damage, then your coverage limit is based on your insurance policy. Other indications of your home's value -- such as your assessed tax value or an online source or even a recent appraisal -- will not influence your coverage amounts.

Consequently, all homeowners should make sure that their homeowner's insurance policy has **replacement cost coverage**. If, instead, you see "actual cash value" on your policy, then that

**Market News: A
Week of Gains
at Last.**

This past week, the S&P 500 Index broke a seven-week streak of losses with a hefty gain. For the week, the Index gained more than 6%.

Although one week -- however large -- can not erase all the year's declines, this recent rally after the earlier turmoil of 2022 has many investors wondering if the worst is behind us.

Alas, predicting market tops and market bottoms is a futile endeavor. However, besides the recent stock-market surge, we have seen signs of stability in the bond

lockdown. It began in February 2020 and ended in April, according to the National Bureau of Economic Research.

During this recession, the U.S. stock market declined -34%, but the recovery was equally rapid and the S&P 500 Index ended up with a 2020 gain of 18.4%.

Near-Term Recession: Yes or No?

Although we think investors need not fear mild recessions, we also think the chances of any recession in 2022 or 2023 are still modest.

We see the current environment as akin to 1945 when a decline in government spending at the end of World War II led to a sharp drop in gross domestic product. The economy had to shift from a wartime to a peacetime economy, much like the shift we are seeing from consumer demand for goods over the past two years to consumer demand for services now. Disruptions in the availability of materials, services, and the labor force caused economic hiccups both times.

In addition, unemployment in 1945 was never high and it remains below 4% now. Technically, the year had an 8-month recession, but only because high growth turned into lower growth.

What Causes a Recession?

Recessions often follow shocks to the economic system such as wars and banking crises. In the Great Recession of 2008, the subprime mortgage crisis led to a housing bubble collapse and a global financial crisis. This severe recession lasted 1 year and 6 months and the S&P 500 Index fell a total of -57%.

In contrast, the decline for a "standard recession" has been

amount is based on depreciated values and you are likely under-insured.

How is Replacement Cost Coverage Determined?

Your insurer determines your home's replacement cost with a number of factors, including your home's age, its exterior construction, square footage, flooring and roofing materials, among many other factors.

If you have an older home, you may want to purchase modified replacement cost coverage. This type of policy can help with the cost of rebuilding older home features, such as plaster walls, with alternative materials more commonly used today.

When I checked my policy (with Travelers), I saw that my home's coverage limit had been increased by 7.6% this year "to reflect the estimated cost to rebuild your home." Travelers uses CoreLogic, an independent firm specializing in construction costs to determine any needed annual coverage increases.

Are Improvements Included?

However, my policy showed that my home had vinyl siding, which I replaced with Hardie Plank five months ago. I immediately called my agent.

If you have replaced your roof, built a deck, upgraded your kitchen or a bath, or any other improvement that has increased the replacement cost value of

market.

Bonds, which typically help manage portfolio risks by cushioning stock-market declines, have made matters worse this year with steep declines of their own.

Recently, investors seem to have accepted the inevitable course of interest-rate increases and returned to the bond market and bond prices have improved.

Although many economic headwinds will not be resolved for some time, the excesses of the past few years have certainly been trimmed back. Speculative investments, such as unproven start-up companies and cryptocurrencies, have fallen by 50% or more.

Removing such excesses is good for long-term investors as it will eventually lead to less volatile investment stretches. We believe investors that stick with their portfolios of quality stocks and bonds will benefit in the coming weeks and months.

-26% according to DataTrek.

Although the Great Recession has come to define recession for many people, recessions are usually shorter, milder, and actually quite frequent. Since WWII, recessions have occurred about every four to five years.

Investors still experience stock-market declines with mild recessions, but patience and good portfolio construction with the right level of risk will make turn these periods into the forgotten past fairly quickly.

your home, speak with your insurance agent right away.

Otherwise, in the event of a total loss, your policy's replacement cost value may be insufficient and you won't be able to fully rebuild with insurance alone.

Damage Your Policy Does Not Cover

As you review your homeowner's policy, remember that flood damage is not covered, though coverage can be added with a separate policy.

Similarly, earthquake coverage is not standard and must be added if you wish to have it.

California

Jennifer Hartman, CFP
jhartman@greenleaf-fg.com
323-395-8801
1239 S. Rimpau Blvd.
Los Angeles, CA 90019



GREENLEAF FINANCIAL GROUP
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Indiana

Kathleen Hartman, CFP, CFA
khartman@greenleaf-fg.com
317-993-3384
13295 Illinois St., Suite 322
Carmel, IN 46032

www.greenleaf-fg.com

Greenleaf Financial Group | 13295 Illinois Street, Suite 322, Carmel, IN 46032

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