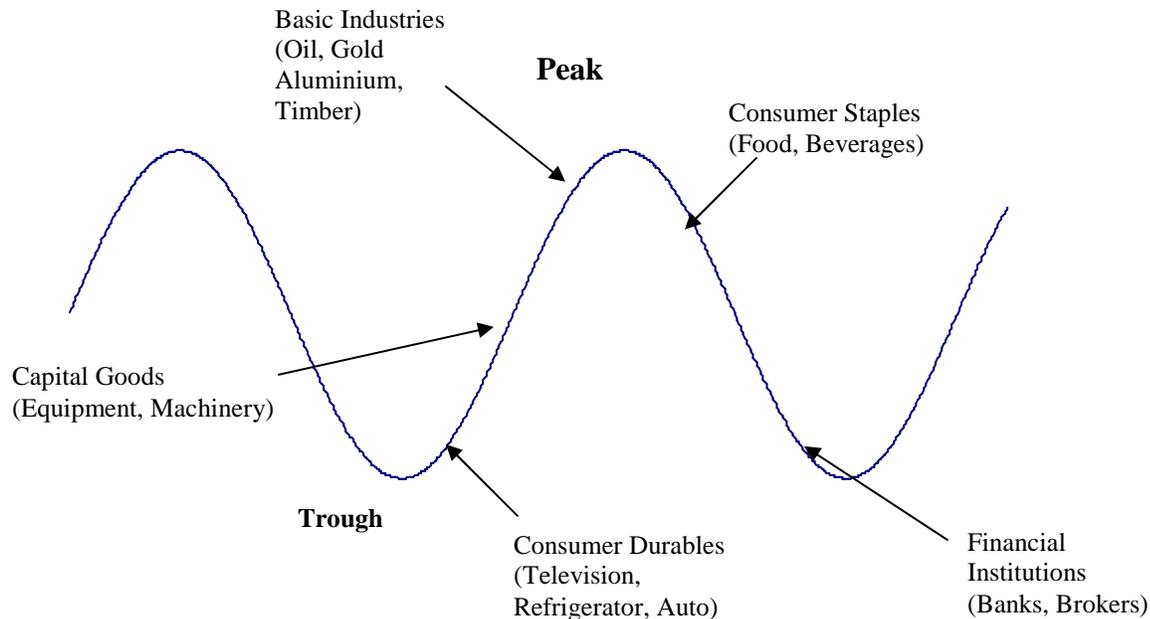


## Business Cycle & Investing

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The business cycle refers to the growth or contraction of an economy over time. Generally, industries tend to perform better during economic expansions than during recessions. However different industries tend to perform differently during various stages of the business cycle. Therefore, smart investors must understand the stages of the business cycle and make his/her investments in industries that would outperform others at each stage.



Industries that would attract investors at different stages of the business cycle could be as follows:

**Late Recession Stage:** During late recession (descending towards the trough of the business cycle), inflation and interest rates fall and some economic indicators will show some signs of imminent recovery. Finance industry institutions such as banks and broker houses tend to improve performance, as investors plan to make investments in anticipation of an economic recovery. Therefore the demand for bank loans could increase and the stock prices increase indicating the positive economic expectations. Sri Lankan economy could be in this stage right now, considering the post war scenario.

**Early Recovery Stage:** This phase is characterised by low inflation and interest rates. Generally stocks in industries that produce consumer durables such as televisions, refrigerators and cars are likely to do well.

**Mid expansion stage:** Once the recovery is underway and the business confidence improves, the companies tend to make more investments in capital goods in trying to improve the businesses (e.g. plant and machinery and land). Therefore, companies with exposure in real estates and capital goods are attractive investments at this stage.

**Late expansion:** During this period, inflation and interest rates tend to rise. Hence, the industries that are not affected much from inflation such as oil, gold, copper and other commodities become attractive investments.

**Recession Stage:** The aggregate demand falls during this period, resulting in falling inflation as well as interest rates. The industries that are more sensitive to changes to the economy such as consumer durables, leisure and travel become less attractive. However, industries such as food and beverages, utilities such as gas and telecommunication tend to do relatively well due to the essential nature of those products and services.