

What If

With a contraction in real U.S. economic growth in the first quarter of 2025, concerns over an outright recession have risen. A generally accepted indication of recession is two consecutive quarterly declines in real growth. This measure appears unlikely to be triggered as the consensus forecast is a return to real growth in the current quarter. Importantly, the broad U.S. stock market has fallen in each of the eleven economic recessions posted since 1949. The timing and magnitude of both recessions and stock market pullbacks have varied widely. The perspective here provides some basic information that can be useful for determining what portfolio action to take if a recession occurs.

PERSPECTIVE

U.S. economic activity is measured quarterly. **Chart I** shows the 45 quarters of declining real economic activity since 1949. The rate of occurrence, 14%, shows the strong bias toward growth over time. A contraction in real GDP activity alone does not make a recession, but two consecutive quarters of declining activity are a likely condition. Since 1949, 11 recessions have been recognized as having occurred in the U.S. economy. The quarters highlighted in red indicate periods of consecutive quarterly declines and official recessions. At -0.2%, the contraction in real activity in the first quarter was quite modest, and well-below the average quarterly decline of -3.4%. Nevertheless, many indicators of economic activity merit monitoring at this time.

Over the past five years, the U.S. stock market, as measured by the S&P 500 index, gained +98.9% in price and even more so when dividends are included. As **Chart II** shows, however, the trend higher came with meaningful interruptions along the way. And these interruptions occurred in the absence of an economic recession. The initial +59.8% gain followed an additional +31% recovery from the pandemic recession low. That gain was followed by a correction that surpassed the -20% definition of a bear market. A +71.8% recovery took the market to another all-time high. That high was short-lived as tariff-induced concerns brought a sell-off close to the bear market measure.

In each of the 11 U.S. recessions since 1949, the U.S. stock market (as measured by the S&P 500 index) has fallen. **Chart III** provides information on the duration and magnitude of these experiences. Stock market and economic peaks generally do not coincide in time. The average time from a stock market peak to the start of a recession has been 6.5 months. During this time, the stock market has recorded an average decline of -10.6%. From recession start to trough, the average time has been 5.9 months with a further market decline of -21.2%. For the total period from market peak to recession trough, 12.5 months transpired on average with an average bear market loss of -29.4%. While outcomes have varied widely around these averages, recessions have not been good for the stock market, without exception.

INVESTMENT IMPLICATIONS

So what is an investor to do if we get a recession? Unfortunately, the historical record shows that months can pass between when the stock market peaks and a recession begins and that a meaningful market correction likely already has occurred. It also is true that many market corrections occur in the absence of an outright recession. Key economic measures (e.g., labor market conditions, corporate earnings trends, credit market circumstances) may provide early recession warnings. Perhaps most important is to have at the ready appropriate investment strategies, recession or not.

CHART I

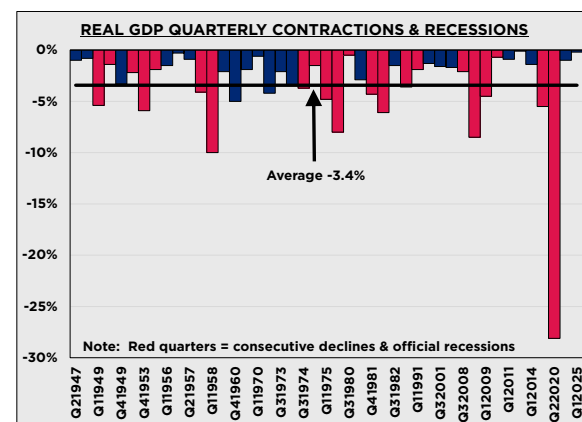


CHART II

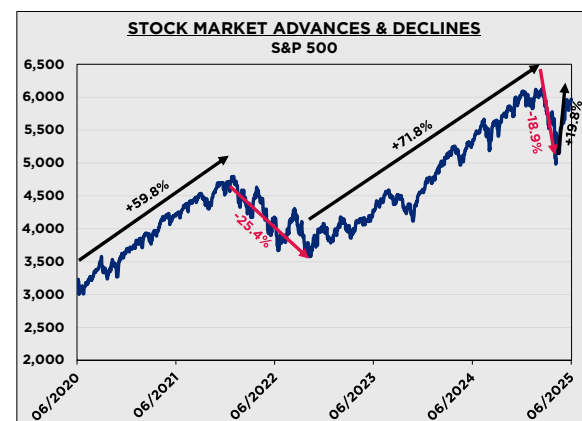


CHART III

