UNITED STATED RECESSIONS AND S&P 500

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is charged with maintaining official records of expansions and recessions in the United States. The NBER defines a recession as a significant decline in economic activity while an expansion is defined as a period where economic activity rises substantially. According to the NBER, since 1929 there have been 15 recessions in the US lasting an average of 13 months each.

The open debate on whether the economy has already fallen into a recession will continue for a while longer. The NBER has stated the current period does not meet their definition of a recession. However, according to the Federal Reserve, the possibility of a recession sometime this year is "plausible."

An over-simplified business cycle historically followed a similar pattern: the economy expands rapidly - unemployment falls - inflation overheats - financial bubbles forms - the Fed responds by raising interest rates – credit tightens - good borrowers struggle to find loans – the economy stumbles - a recession occurs – the economy bottoms - repeat. We've seen the first stages of the business cycle play out starting in mid-2020. At this point, it is unclear whether the turbulence that started with **Silicon Valley Bank** will lead to a full-blown credit crunch, but we do expect that banks will tighten their lending standards which will lead to slower overall economic growth and increased odds of an official recession.

We started writing that a mild US recession felt inevitable last summer, and our view has not changed as several recessionary indicators are still flashing yellow or red, including the **yield curve**, leading economic indicators, and the ISM Manufacturing survey. We continue to believe that a potential recession will be far less severe than previous significant economic declines like the Global Financial Crisis of 2007 – 2009 as consumer leverage and balance sheets are in far better condition.

The good news for long-term investors is that the S&P 500 already priced in an average recession last year when the index fell by -24.5% from January 3rd through October 12th. We are not sure if October 12th marks the ultimate bottom for this period, although unless your view is that this is the start of another Great Depression or Financial Crisis, then a lot of the damage in the equity market may have already occurred at the recent low.

A key tenant to our investment philosophy is to maintain a long-term viewpoint. A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that recessions can create buying opportunities for long-term investors. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods.

United States Recessions			S&P 500 Performance						
Economic Growth Peak	Economic Growth Trough	Peak to Trough (Months)	S&P 500 Peak	S&P 500 Trough	Peak to Trough (Months)	Peak to Trough Decline	1-Year Post Trough	3-Year Post Trough	5-Year Post Trough
August 1929	March 1933	44	September 1929	June 1932	33	-86.2%	121.4%	117.7%	287.9%
May 1937	June 1938	13	March 1937	March 1938	13	-51.3%	34.8%	36.3%	82.8%
February 1945	October 1945	8	January 1945	January 1945	0	-3.5%	42.7%	24.9%	74.6%
November 1948	October 1949	11	June 1948	June 1949	12	-15.5%	59.9%	132.8%	206.8%
July 1953	May 1954	10	January 1953	September 1953	8	-12.4%	45.6%	137.3%	165.0%
August 1957	April 1958	8	July 1957	October 1957	3	-19.8%	36.2%	52.0%	68.9%
April 1960	February 1961	10	January 1960	October 1960	10	-11.1%	34.8%	55.9%	106.0%
December 1969	November 1970	11	May 1969	May 1970	13	-32.2%	48.9%	71.3%	56.1%
November 1973	March 1975	16	January 1973	October 1974	21	-44.8%	44.4%	76.4%	122.9%
January 1980	July 1980	6	February 1980	March 1980	1	-16.7%	44.4%	82.5%	133.5%
July 1981	November 1982	16	January 1981	August 1982	19	-19.1%	66.1%	111.0%	300.3%
July 1990	March 1991	8	July 1990	October 1990	3	-19.2%	33.5%	70.8%	126.4%
March 2001	November 2001	8	January 2001	September 2001	8	-29.1%	-11.1%	22.2%	49.7%
December 2007	June 2009	18	October 2007	March 2009	17	-55.2%	72.3%	115.0%	208.7%
February 2020	April 2020	2	February 2020	March 2020	1	-33.8%	77.8%	85.1%	
Average (15)		13			11	-30.0%	50.1%	79.4%	142.1%
Median (15)		10			10	-19.8%	44.4%	76.4%	124.7%
Average (14. Ex. Great Depression)		11			9	-26.0%	45.0%	76.7%	130.9%
Median (14. Ex Great Depression)		10			9	-19.5%	44.4%	73.8%	122.9%

Source: National Bureau of Economic Research (NBER) and Bloomberg