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 form - 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.