



# US RECESSION. IS THE WORST OVER IN EQUITY MARKETS?

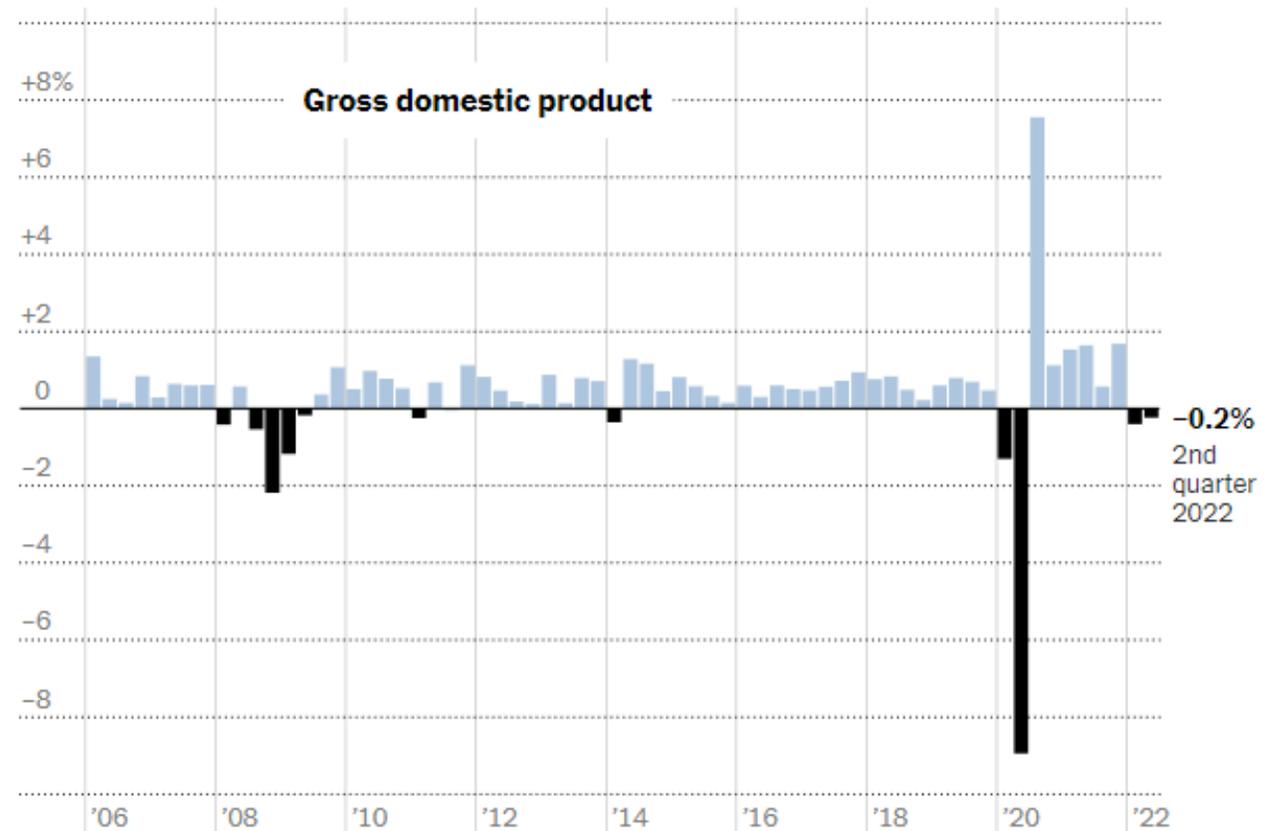
POSITIVE PERFORMANCE HAS HISTORICALLY BEEN THE MORE LIKELY OUTCOME AS A RECESSION STARTS. EQUITIES PERFORM THE WORST ONE YEAR BEFORE A RECESSION.



CAN EQUITIES  
PERFORM MUCH  
BETTER OVER THE  
REST OF THE YEAR?

- ✓ US economy is in a recession defined by two consecutive quarters of negative GDP.
- ✓ Equities performance the worst one year before a recession. Recovery times and strength varies, but equities tend to have a positive performance once a recession starts.
- ✓ Interest rate expectations have tumbled. The implied yield on three-month T-bills in 18 months has declined 2.75% to 0.50% meaning that investors expect the Fed Reserve to cut interest rates in 2023.

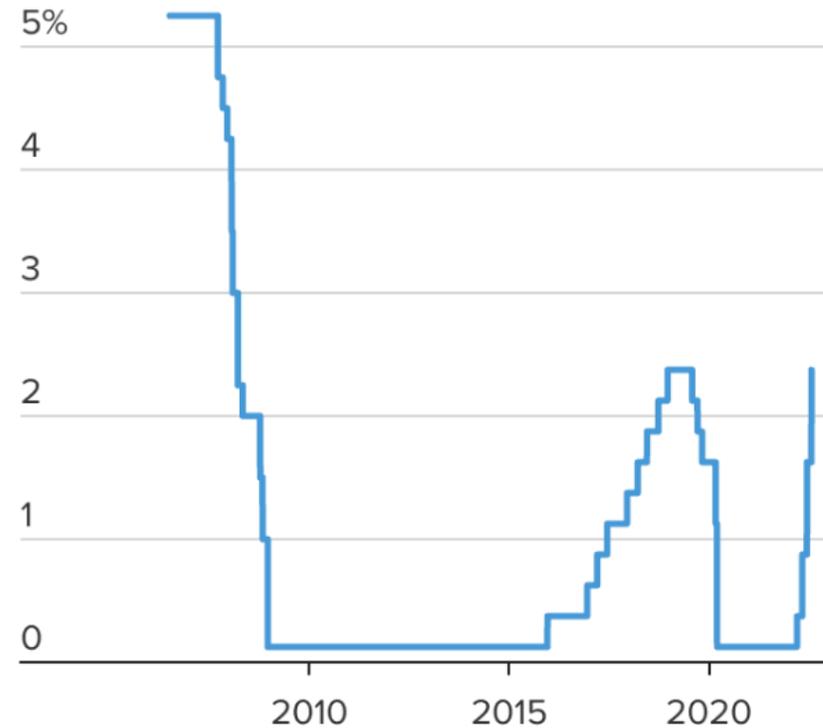
THE US ECONOMY  
LOOKS LIKE IT HAS  
ALREADY ENTERED  
A RECESSION  
(THIS COULD BE  
REVISED IN  
COMING MONTHS)



Quarterly changes in real gross domestic product • Source: Bureau of Economic Analysis • By The New York Times

THE FEDERAL  
FUNDS TARGET  
INTEREST RATE  
2.25%-2.50%

## The federal funds target rate since July 2006



Note: From 2008 forward, data reflects midpoint of the target range.

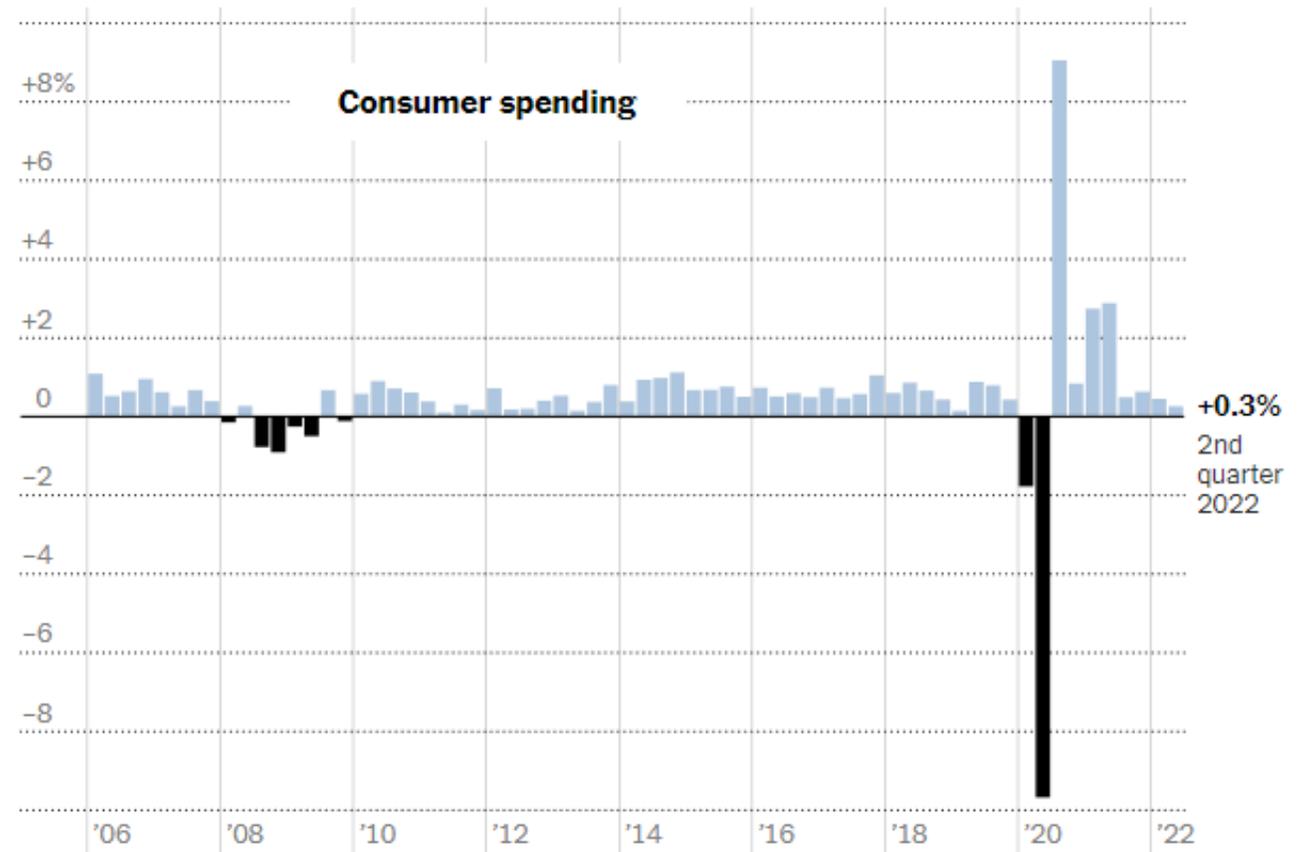
Chart as of July 27, 2022.

Chart: Gabriel Cortes / CNBC

Source: The Federal Reserve Bank of New York



INFLATION HAS  
CAUSED A DECLINE  
IN DOMESTIC  
SPENDING

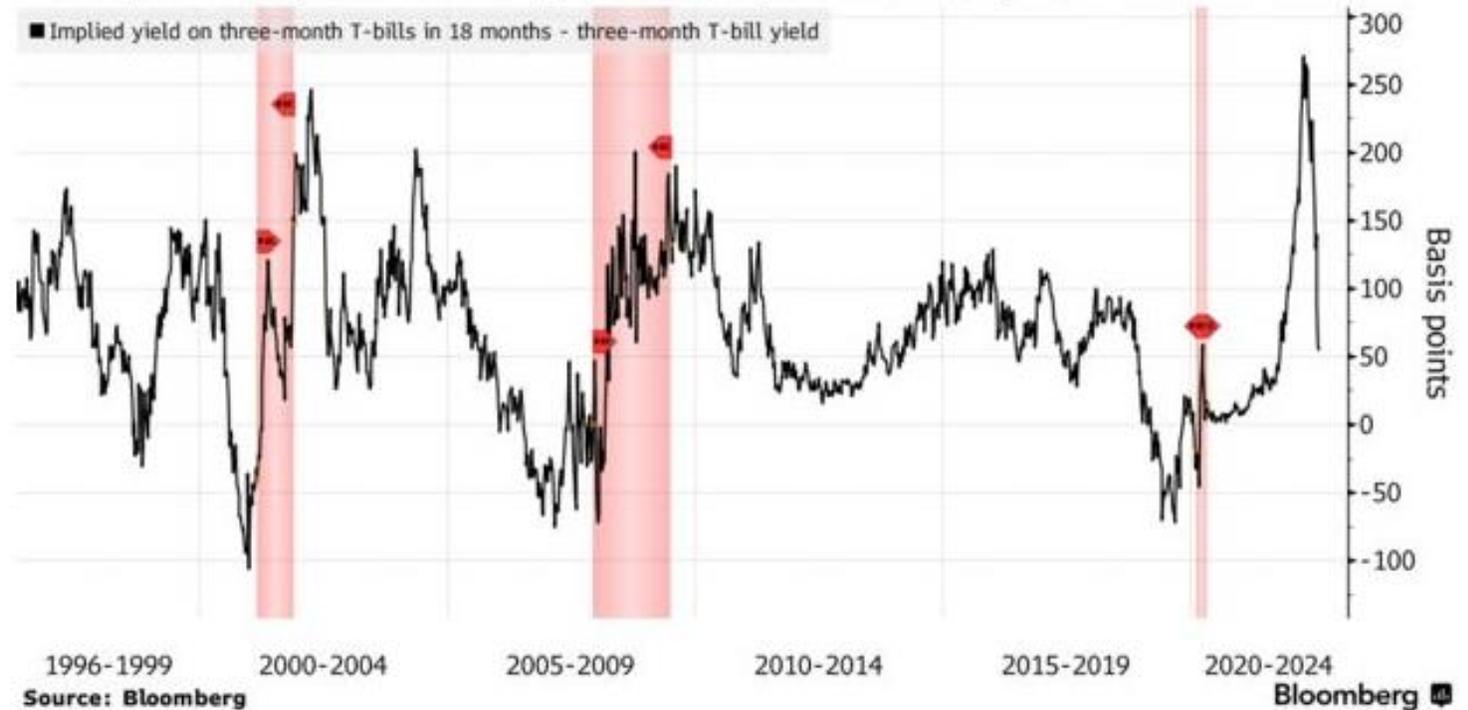


Quarterly changes in real personal consumption expenditures • Source: Bureau of Economic Analysis • By The New York Times

EXPECTATIONS ON  
WHERE 3 MONTH  
T-BILLS WILL BE IN  
18 MONTHS HAVE  
TUMBLLED

## Brace Position

Fed's preferred yield curve drops at record pace from its peak



US 10 YEAR  
TREASURY YIELD IS  
2.69%

## U.S. 10 Year Treasury

US10Y:Tradeweb

RT Quote | Exchange

Yield | 4:10 AM EDT

**2.688%** ▲ +0.007

1D 5D 1M 3M 6M YTD 1Y 5Y ALL

+ Comparison

1M Display Studies Settings



EQUITIES  
PERFORM THE  
WORST ONE YEAR  
BEFORE A  
RECESSION. THE  
FOLLOWING TWO  
YEARS, PRICES  
WERE POSITIVE  
82% OF THE TIME

### How Do Stocks Perform Around Recessions?

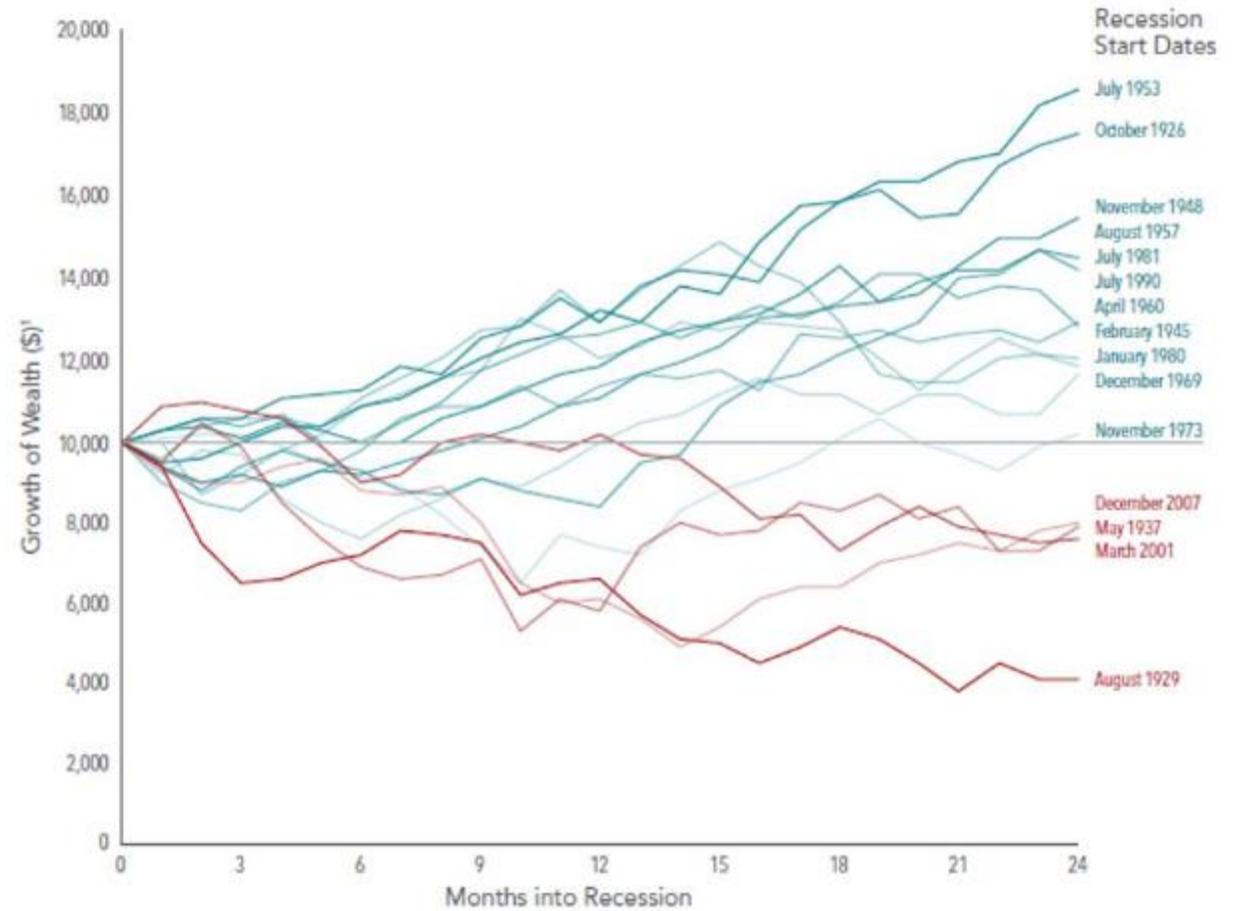
On average, stocks performed worse 1 year before a recession than during a recession. In the 2 years following a recession, price returns were positive 82% of the time.

Recession Start	Length (Years)	During Recession	6M Before	12M Before	6M After	12M After	2Y After
7/31/1953	0.83	18%	-6%	-3%	17%	30%	55%
8/31/1957	0.67	-4%	5%	-5%	18%	33%	25%
4/30/1960	0.83	17%	-5%	-6%	7%	10%	1%
12/31/1969	0.92	-5%	-6%	-11%	14%	8%	34%
11/30/1973	1.33	-13%	-9%	-18%	1%	23%	18%
1/31/1980	0.50	7%	10%	14%	6%	8%	-12%
7/31/1981	1.33	6%	1%	8%	-19%	20%	18%
7/31/1990	0.67	5%	8%	3%	3%	8%	20%
3/31/2001	0.67	-2%	-19%	-23%	-6%	-18%	-7%
12/31/2007	1.50	-37%	-2%	4%	21%	12%	44%
2/29/2020	0.17	-1%	1%	6%	12%	-44%	?
<b>Average Return</b>		-1%	-2%	-3%	7%	16%	20%
<b>% Positive Return Periods</b>		45%	45%	45%	82%	91%	82%

Cumulative price return of the S&P 500 during past recessions. Past performance is not indicative of future returns.  
Table: Darrow Wealth Management - Source: YCharts; Nber - Created with Datawrapper

POSITIVE  
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AFTER A  
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### PERFORMANCE OF A HYPOTHETICAL \$10,000 INVESTED WHEN A US RECESSION BEGAN



Total return of the Fama/French Total US Market Research Index in the 24 months following the start ... [+]

DIMENSIONAL FUND ADVISORS

HERE'S WHAT  
USUALLY HAPPENS  
AFTER A 20% DROP  
IN THE S&P 500

**S&P 500 returns after falling -20% from record high (since 1950)**

	6-months later	1-year later	2-years later	3-years later
10/21/57	9%	31%	46%	40%
5/28/62	11%	26%	45%	59%
8/29/66	18%	25%	36%	24%
1/29/70	-9%	11%	20%	38%
11/27/73	-9%	-27%	-6%	7%
2/22/82	1%	32%	40%	62%
10/19/87	15%	23%	48%	31%
3/12/01	-7%	-1%	-27%	-6%
7/9/08	-27%	-29%	-17%	6%
3/12/20	35%	59%	72%	
<b>Average</b>	<b>4%</b>	<b>15%</b>	<b>26%</b>	<b>29%</b>
<b>% positive</b>	<b>60%</b>	<b>70%</b>	<b>70%</b>	<b>89%</b>

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