FRANKLIN TEMPLETON

ClearBridge

Anatomy of a Recession: Economic and Market Outlook

Third Quarter 2024

As of August 1

U.S. Economic Outlook[1]

Third Quarter 2024

- The U.S. economy appears headed toward a soft landing. The overall signal from the Clearbridge Recession Risk Dashboard is in green territory following marked improvement in the first half of 2024.
- The labor market has been a bright spot, with solid job creation and resilient wage gains. A continuation of this trend should buttress consumption in the back half of the year.
- While a growth scare may emerge in the second half of 2024, we believe the economy is normalizing following a period of elevated post-pandemic growth.

Anatomy of a Recession (AOR): U.S. Recession Risk Indicators

ClearBridge Investments, one of Franklin Templeton's specialist investment managers, utilizes 12 different economic indicators to assess the risk of recession. Each individual indicator can signal expansion, caution or recession in the economy. The signals from each of the 12 indicators are combined into an overall dashboard signal. The indicators, signals and changes are based on ClearBridge's interpretation of the data. The dashboard is not a crystal ball but can serve as a tool to evaluate the risk of recession in the U.S. economy.

		Current[2]		
		July 2024	March 2024	December 2023
Consumer	Housing Permits	Caution	Caution	Recession
	Job Sentiment	Recession	Recession	Recession
	Jobless Claims	Caution	Caution	Caution
	Retail Sales	Caution	Caution	Caution
	Wage Growth	Expansion	Recession	Recession
Business Activity	Commodities	Caution	Caution	Caution
	ISM New Orders	Caution	Caution	Recession
	Profit Margins	Expansion	Recession	Recession
	Truck Shipments	Caution	Caution	Caution
Financial	Credit Spreads	Expansion	Caution	Caution
	Money Supply	Caution	Recession	Recession
	Yield Curve	Recession	Recession	Recession
	Overall Signal	Expansion	Caution	Recession

Expansion

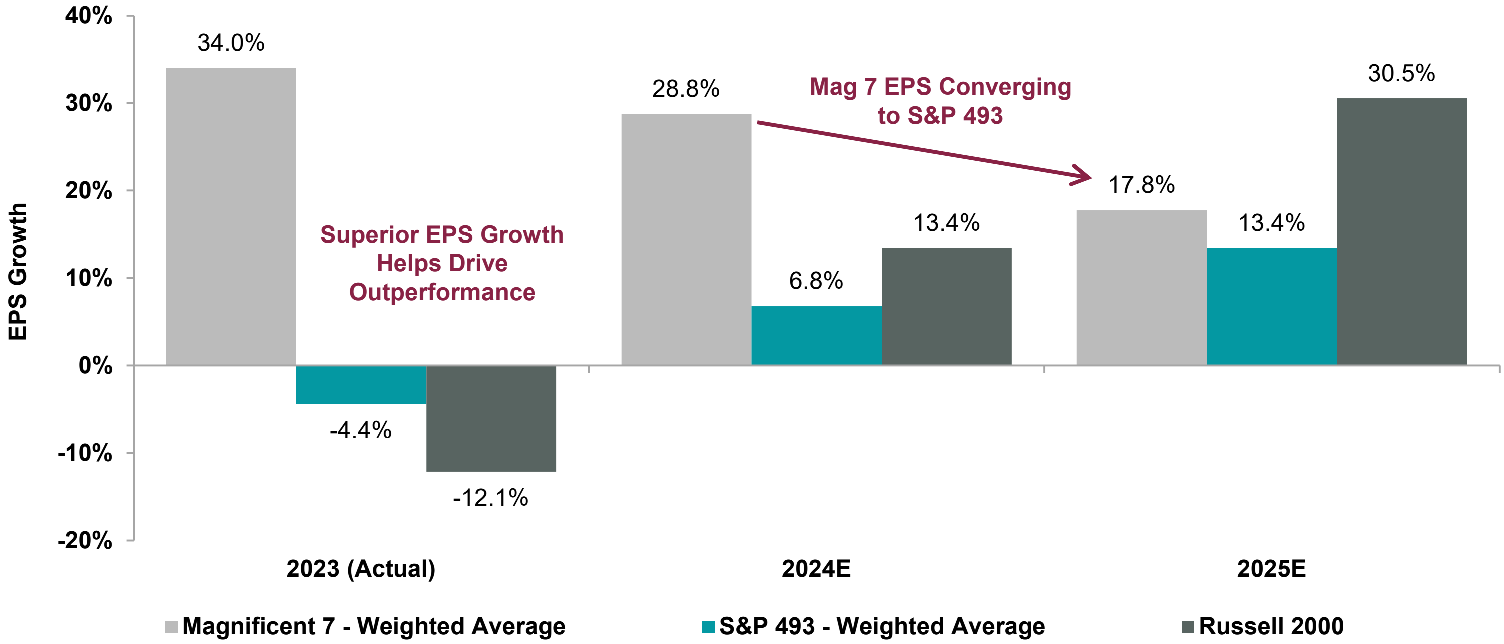
Caution

Recession

Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

1. As of July 31, 2024. All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the author and may differ from other portfolio managers or the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision.
2. Data as of July 31, 2024. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

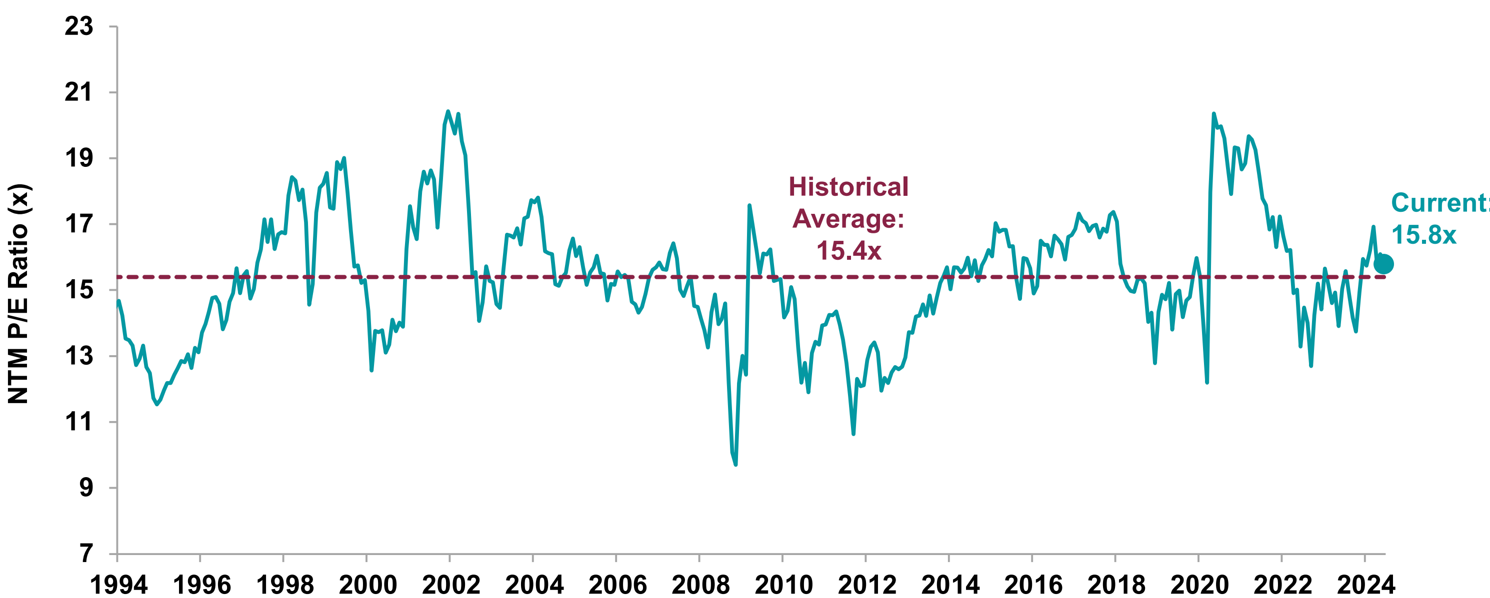
Mag 7 Advantage Dissipating[3]



- A key driver of the Mag 7 outperformance has been superior earnings growth.
- Bottom-up consensus expects this advantage to narrow in the coming year which could help drive broader equity market leadership.

Average Stock Valuation Is...Average

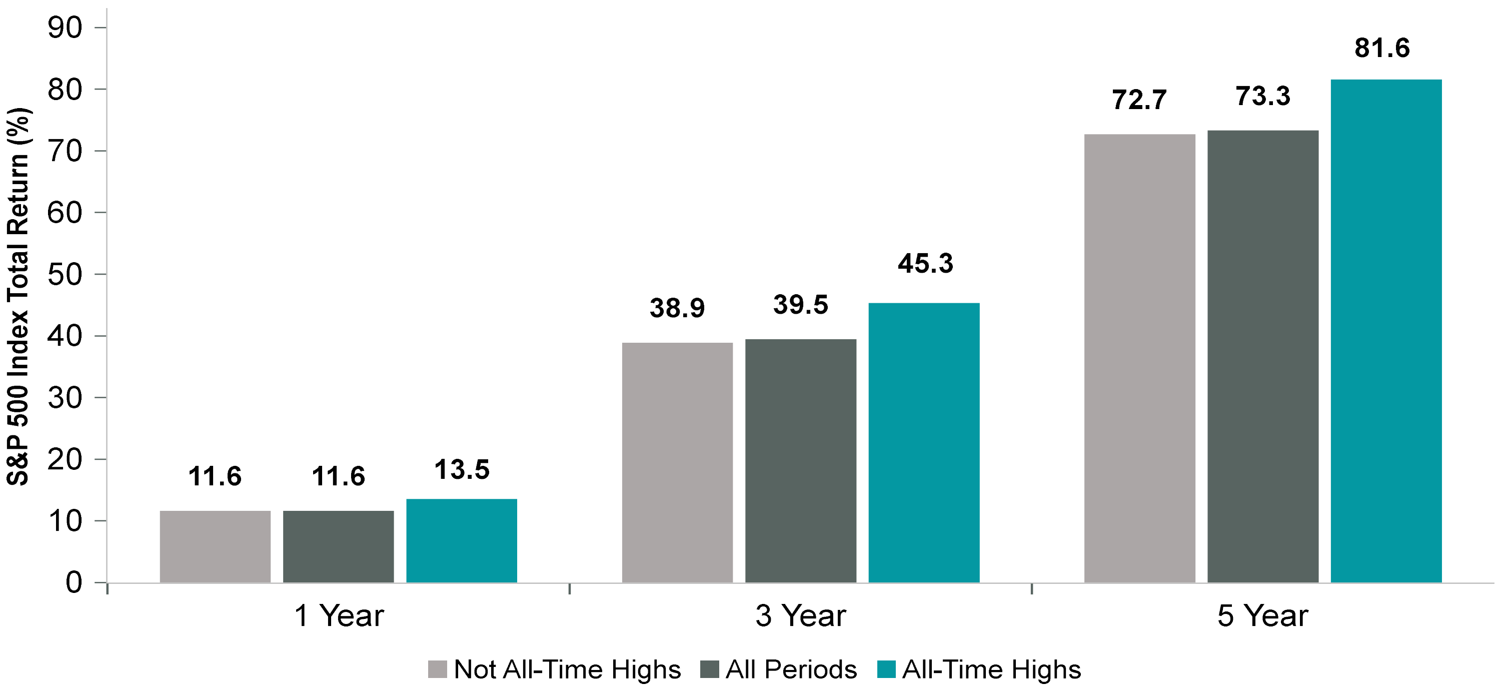
S&P 500 Equal Weight NTM P/E[4]



- Although index valuations appear extended for the cap-weighted S&P 500, this is largely a function of a handful of the largest constituents.
- The typical stock trades at a modest premium relative to history as evidenced by the valuation of the equal-weight S&P 500.

3. Magnificent 7 data is cap weighted and refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of June 30, 2024. Sources: FactSet, Russell, S&P. There is no assurance that any estimate, forecast or projection will be realized. Company references are used for illustrative purposes and should not be construed as an endorsement of sponsorship of Franklin Templeton companies. This information is not intended as an investment recommendation, nor does it constitute investment advice.
4. Data as of June 30, 2024. Source: UBS. NTM=Next 12 months.

Don’t Be Afraid of All-time Highs[5]



- Surprisingly, putting money to work at all-time highs has historically outperformed deploying capital when the benchmark is below peak, on average.

Fed Cuts, 10-year Drops[6]

- As a rate-cutting cycle approaches, the 10-year Treasury has historically fallen.
- This typically continues in the quarters following the initial cut irrespective of economic conditions.

5. Sources: Macrobond, S&P Global. Data last updated on June 27, 2024, reflective of period from September 1989 to present. Latest available as of June 30, 2024.
6. Data reflective of cutting cycles of at least 75 bps beginning in: 1974, 1980, 1981, 1984, 1989, 1995, 2001, 2007, and 2019. Sources: Macrobond, Federal Reserve.

Equity Leadership Following the Cut[7]

Initial Rate Cut	Economic Outcome	Subsequent 12-Month Price Return: Cash (3M T-Bills)	Russell 1000 Growth	Russell 1000 Value	Russell Mid Cap	Russell 2000
Apr. 1980	Recession	13.5%	39.0%	30.1%	51.41%	66.3%
June 1981	Recession	15.9%	-18.4%	-15.2%	-18.35%	-20.5%
Oct. 1984	Soft Landing	8.9%	9.5%	10.8%	11.96%	8.5%
June 1989	Recession	8.7%	17.5%	4.2%	4.50%	-1.5%
July 1995	Soft Landing	5.5%	22.5%	18.2%	17.26%	19.1%
Jan. 2001	Recession	4.4%	-15.6%	-5.7%	-3.08%	5.3%
Sept. 2007	Recession	3.2%	-17.6%	-25.4%	-19.29%	-12.8%
July 2019	Recession	1.5%	24.9%	-9.2%	-0.71%	-5.7%
Average		**7.7%**	**7.7%**	**1.0%**	5.5%	7.3%
Recessionary Average		**7.8%**	5.0%	**-3.5%**	2.4%	5.2%
Soft Landing Average		**7.2%**	**16.0%**	14.5%	14.6%	13.8%

- Cash and large-cap growth stocks have historically performed best following the commencement of a rate-cutting cycle.
- Rate cuts that preceded soft landings have historically given way to substantial equity outperformance compared with cash.

Bond Leadership Following the Cut[8]

Initial Rate Cut	Economic Outcome	Subsequent 12-Month Return: Cash (3M T-Bills)	Short-Term Bonds	U.S. Treasury Bonds	Core/Core Plus Bonds	Investment-Grade Corporate Bonds
Apr. 1980	Recession	13.5%	15.1%	13.1%	13.0%	13.2%
June 1981	Recession	15.9%	16.9%	15.2%	14.9%	14.6%
Oct. 1984	Soft Landing	8.9%	16.4%	20.6%	22.0%	23.8%
June 1989	Recession	8.7%	9.3%	8.7%	9.4%	9.2%
July 1995	Soft Landing	5.5%	5.5%	2.8%	3.3%	3.0%
Jan. 2001	Recession	4.4%	8.0%	4.9%	7.0%	8.8%
Sept. 2007	Recession	3.2%	5.9%	10.6%	6.0%	-1.7%
July 2019	Recession	1.5%	4.4%	12.0%	10.2%	12.6%
Average		**7.7%**	10.2%	**11.0%**	10.8%	10.4%
Recessionary Average		**7.8%**	9.9%	**10.8%**	10.1%	9.5%
Soft Landing Average		**7.2%**	11.0%	11.7%	12.7%	**13.4%**

- Cash has historically been the worst performer following the commencement of a rate-cutting cycle irrespective of economic outcome.
- In soft landings, investors have historically been rewarded by taking on credit risk whereas the safety of Treasuries has shined through during recessions.

7. Rate cut cycles of at least 75 bps. Data as of June 30, 2024. Sources: FactSet, Bloomberg, S&P, Russell, ICE BofA, NBER. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.
8. Rate cut cycles of at least 75 bps. Investment-Grade Corporate Bonds represented by the Bloomberg U.S. Corporate Total Return Value Unhedged Index, Core/Core Plus Bonds represented by the Bloomberg U.S. Agg Total Return Value Unhedged Index, Short-Term Bonds represented by the Bloomberg 1-3 Year U.S. Gov/Credit Total Return Index. Data as of June 30, 2024. Sources: FactSet, Bloomberg, ICE, NBER. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

FRANKLIN TEMPLETON
(800) 342-5236
franklintempleton.com

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