FRANKLIN TEMPLETON

ClearBridge

Anatomy of a Recession: Economic and Market Outlook

First Quarter 2025

As of March 1

US Economic Outlook[1]

First Quarter 2025

- The U.S. economy is on solid footing, having defied expectations once again in 2024. The overall signal from the ClearBridge Recession Risk Dashboard is firmly in green "expansion" territory.
- Several of the key drivers behind superior U.S. economic growth remain intact heading into 2025, including a robust consumer, strong productivity gains, and a supportive fiscal/monetary policy backdrop.
- The Fed lowered short-term rates by 100 bps in 2024, which should help bolster economic resilience. The magnitude of rate cuts has already eclipsed what was necessary to achieve a soft landing in the 1990s.

Anatomy of a Recession (AOR): US 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 US economy.

		Current[2]		
		February 2025	**January 2025**	**December 2024**
Consumer	Housing Permits	↑	↑	↑
	Job Sentiment	✕	✕	✕
	Jobless Claims	↑	↑	↑
	Retail Sales	↑	↑	↑
	Wage Growth	↑	↑	↑
Business Activity	Commodities	↑	↑	↑
	ISM New Orders	●	↑	●
	Profit Margins	↑	↑	↑
	Truck Shipments	●	●	●
Financial	Credit Spreads	↑	↑	↑
	Money Supply	↑	↑	●
	Yield Curve	✕	●	●
	Overall Signal	↑	↑	↑

↑ 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 February 28, 2025. 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. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME, FactSet and Macrobond. Data as of February 28, 2025. 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.

Duck, Duck, Goose?[3]

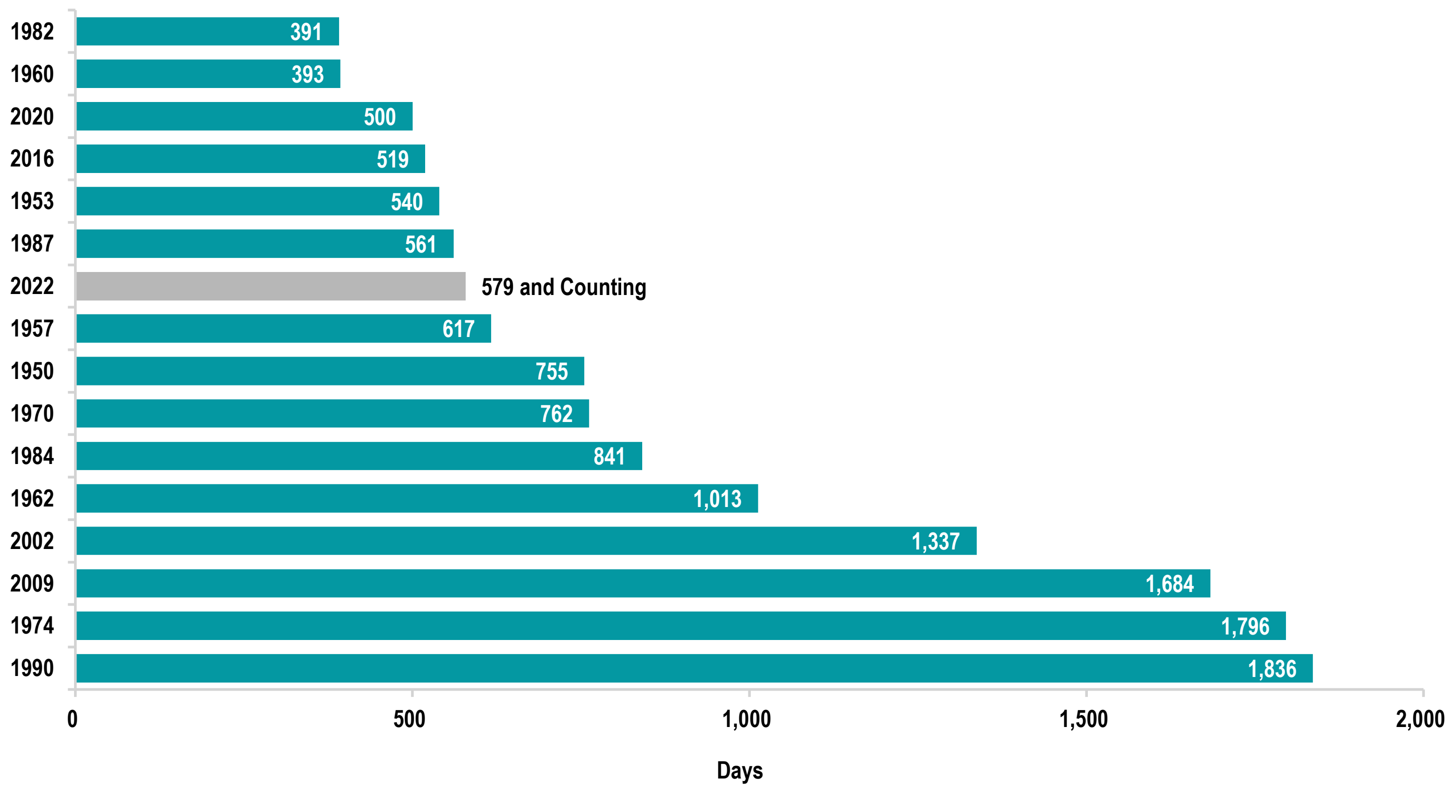
S&P 500 returns after back-to-back 20%+ gains (1950-Current)

	S&P 500 Total Returns		
Years with 20%+ Gains	Year One	Year Two	Year Three After Back-To-Back 20%+ Gains
1950 & 1951	30.8%	23.7%	18.2% (1952)
1954 & 1955	52.6%	32.6%	7.4% (1956)
1975 & 1976	37.0%	23.8%	-7.0% (1977)
1982 & 1983	20.4%	22.3%	6.2% (1984)
1995 & 1996	37.6%	23.0%	33.4% (1997)
1996 & 1997	23.0%	33.4%	28.6% (1998)
1997 & 1998	33.4%	28.6%	21.0% (1999)
1998 & 1999	28.6%	21.0%	-9.1% (2000)
2023 & 2024	26.3%	25.0%	???
		Average	**12.3%**
		% Positive	75%

- The S&P 500 has historically continued to deliver solid returns on balance following years of 20%+ back-to-back gains.

Correction not a Foregone Conclusion[4]

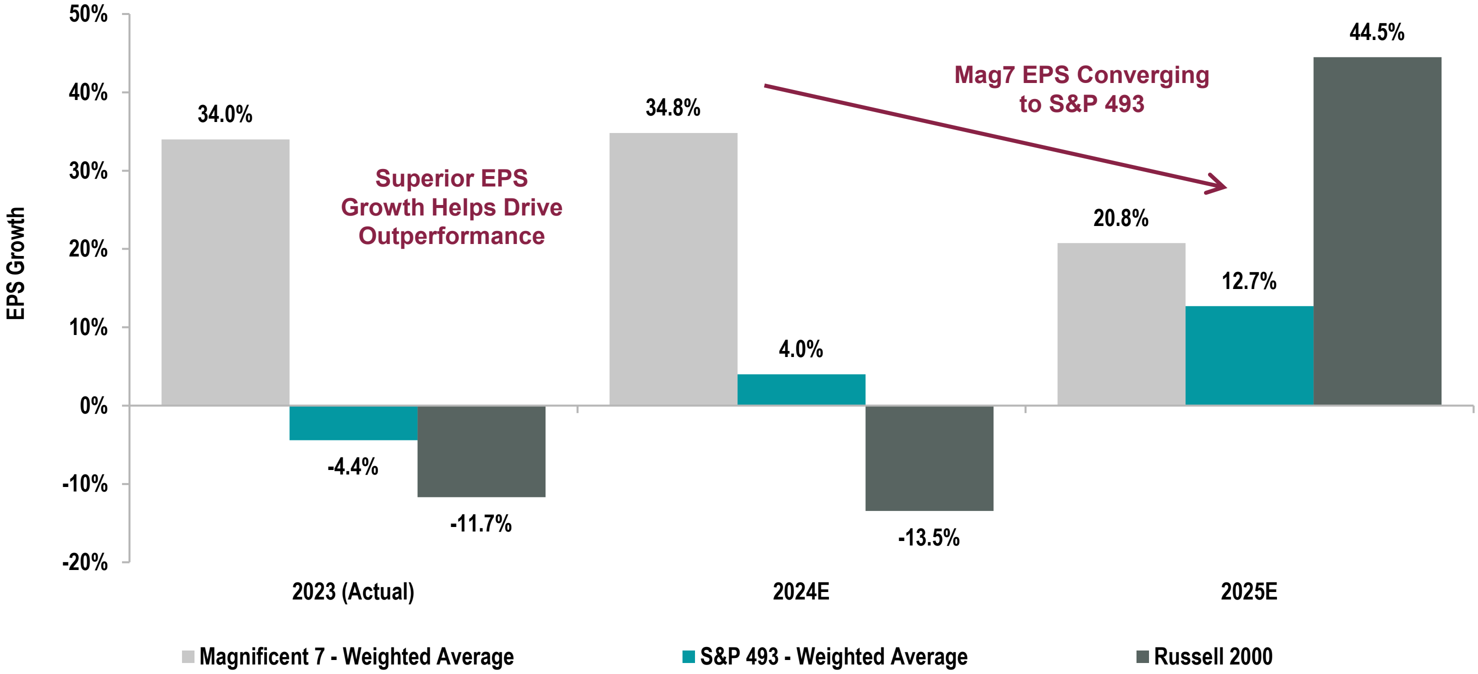
S&P 500: Number of trading days without a 10% correction



- Although it has been over two years since the market's last 10% selloff, history shows this is hardly unprecedented.

3. Note: Damodaran data used from 1950-1989; FactSet data used from 1990-current. Data as of December 31, 2024. Sources: NYU (Damodaran Online), FactSet.
4. Data as of December 31, 2024. Sources: FactSet, S&P.

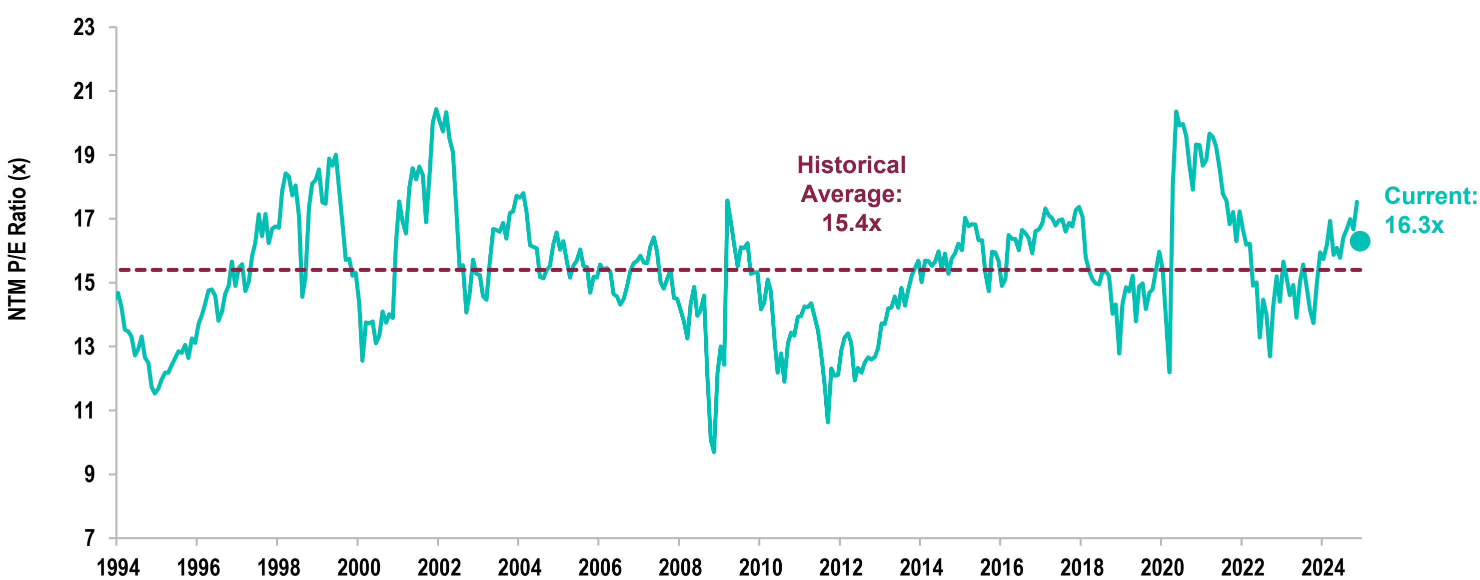
Mag7 Advantage Dissipating[5]



- A key driver of the Mag7 outperformance has been superior earnings growth.
- Bottom-up consensus[6] expects this advantage to narrow in the coming year, which could help drive broader equity market leadership.

Average Stock Valuation Is...Average[7]

S&P 500 equal weight NTM P/E



- 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.

5. Magnificent 7 data 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 December 31, 2024. Sources: FactSet, Russell, S&P. 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. 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.
6. The term “consensus” within the capital markets industry refers to the average of earnings estimates made by professionals.
7. NTM = Next 12 Months. Data as of December 31, 2024. Source: UBS.

Equity Leadership Following the Cut[8]

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[9]

Initial Rate Cut	Economic Outcome	Subsequent 12-Month Return					
		Cash (3M T-Bills)	Short-Term Bonds	US Treasury Bonds	Core/Core Plus Bonds	Investment-Grade Corporate Bonds	High-Yield 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%	22.7%
June 1989	Recession	8.7%	9.3%	8.7%	9.4%	9.2%	-2.6%
July 1995	Soft Landing	5.5%	5.5%	2.8%	3.3%	3.0%	9.7%
Jan. 2001	Recession	4.4%	8.0%	4.9%	7.0%	8.8%	5.1%
Sept. 2007	Recession	3.2%	5.9%	10.6%	6.0%	-1.7%	-4.7%
July 2019	Recession	1.5%	4.4%	12.0%	10.2%	12.6%	4.0%
Average		7.7%	10.2%	**11.0%**	10.8%	10.4%	**5.7%**
Recessionary Average		7.8%	9.9%	**10.8%**	10.1%	9.5%	**0.5%**
Soft Landing Average		**7.2%**	11.0%	11.7%	12.7%	**13.4%**	**16.2%**

- 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 typically shined through during recessions.

8. Sources: FactSet, Bloomberg, S&P, Russell, ICE BofA, NBER. 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. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.
9. Note: rate-cut cycles of at least 75 bps. Investment-Grade Corporate Bonds represented by the Bloomberg US Corporate Total Return Value Unhedged Index, Core/Core Plus Bonds represented by the Bloomberg US Agg Total Return Value Unhedged Index, Short-Term Bonds represented by the Bloomberg 1-3 Yr US Gov/Credit Total Return Index. High Yield Bonds represented by the Bloomberg US Corporate High-Yield Total Return Index Value Unhedged USD Index. Sources: FactSet, Bloomberg, ICE, NBER. 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. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

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