10 Things You Should Know About Recessions

1. **What's in a name?:** A recession is an extended period of declining economic output, wages, employment, industrial production, and retail sales.[1]

2. **A recession is not the same as a bear market:** The economy is not the stock market. The stock market is based on expectations for the economy in six to 12 months, so stocks can move up during a recession—or down when the economy's expanding. By contrast, economic recessions or expansions may not be identified until months after they begin.

3. **Internal versus external shocks:** Recessions can be started by imbalances in the economy, such as a financial crisis; these imbalances usually must stabilize for the recession to end. They can also be started by the economy's reaction to external shocks, such as a pandemic or a terrorist attack.

4. **The customer is always right:** Consumer spending accounts for about 70% of US economic activity, which is why there's so much concern that social distancing and quarantine measures due to the COVID-19 pandemic will have a negative impact on the US economy.[2]

5. **What goes up must come down:** Recessions and expansions are a normal part of the economic cycle. There have been 12 recessions since 1945, occuring about five years apart on average.[3]

6. **We grow more than we contract:** On average, US recessions have lasted about 11 months. The Great Recession (2007 – 2009) that followed the global financial crisis was the longest period of economic contraction since the Great Depression: 18 months. Conversely, the expansion that followed the Great Recession was the longest on record, lasting more than 10 years.

7. **Connected, but not always in sync:** Even in today's interconnected world, individual countries can enter recessions without taking the global economy down with them. According to the International Monetary Fund, there have been only four global recessions since 1960 (compared to eight in the US in the same time frame).[4]

8. **Bad begets good:** The Federal Reserve Bank of Cleveland found that the worse a recession, the stronger the expansion that followed it. They didn't find a connection between the length of an economic expansion and the severity of the recession that followed it.[5]

[1] The National Bureau of Economic Research (NBER) is the organization responsible for identifying economic cycles. The definition of a recession used to be two consecutive quarters of decline in real GDP, but is now more nuanced: Extended diminishing activity in real GDP (an inflation-adjusted measurement of the value of all goods and services produced by an economy), real income (inflation-adjusted measurement of how much money an individual makes), employment, industrial production, and wholesale-retail sales output.

[2] Personal Consumption Expenditures/Gross Domestic Product, Federal Reserve Bank of St. Louis, as of Q42019

[3] Data source for recession statistics: NBER unless otherwise noted.

[4] "Collapse and Revival: Understanding Global Recessions and Recoveries," Ayhan Kose; Marco Terrones, IMF 2015

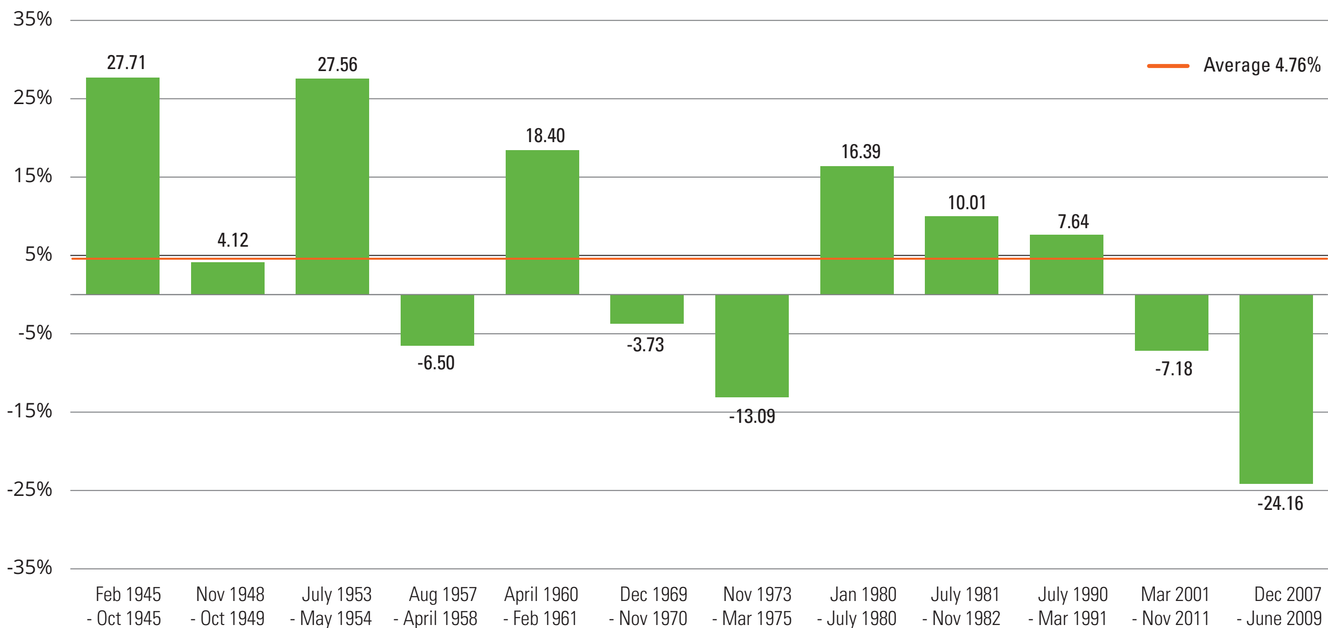
[5] "Do longer expansions lead to more severe recessions? No, say Cleveland Fed researchers," Federal Reserve Bank of Cleveland, January 2019

9. **Not all stocks are created equal:** Recessions impact different sectors of the economy, and the stock market, differently. The stocks of some industries are considered "cyclical" and are more impacted by the state of the economy (think discretionary purchases such as travel or a new car), while others are necessities regardless of economic cycle (think utilities).

10. **Stocks can grow when the economy contracts:** Although bear markets sometimes coincide with recessions, stocks actually produced *positive* returns during seven of the 12 recessions since 1945. In fact, the S&P 500 Index returned 4.76% on average through those recessions (see chart below).

Stocks Have Posted Positive Returns During Recessions More Often Than Not

S&P 500 Index Performance During Recessions Since 1945



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data sources: Morningstar, Ned Davis Research, and Hartford Funds, 3/20.

Talk to your financial advisor to see how changes in the economy could impact your financial plan.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Important Risks: Investing involves risk, including the possible loss of principal.

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