FINANCIAL PERSPECTIVES

Stock Performance Before or During Recession

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Stock Performance Before or During Recessions

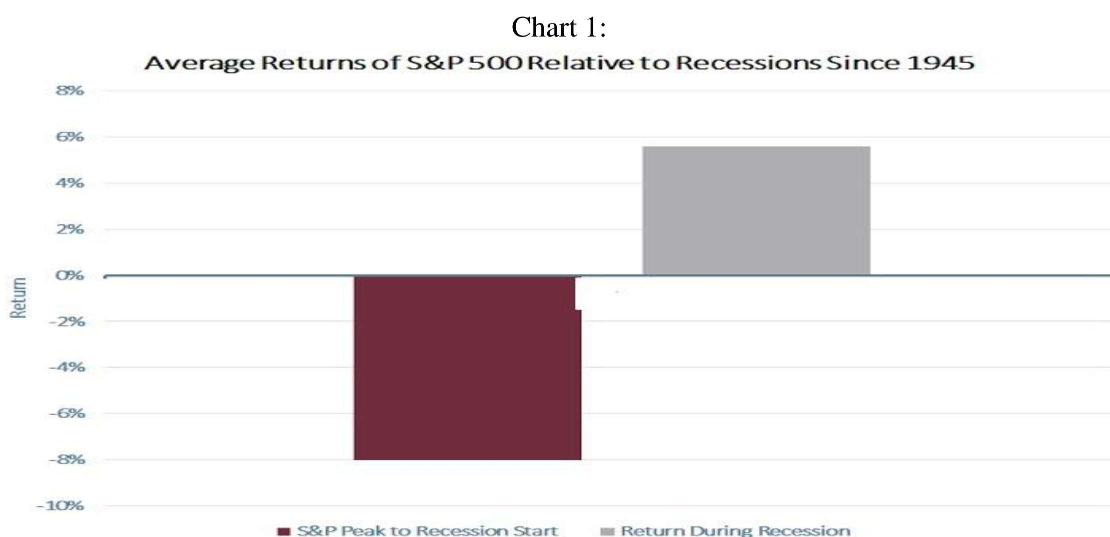
Many people are very worried about recession in 2019 or 2020. While economic data does not yet indicate recession is imminent--and we recently provided our own outlook here--we wanted to share some historical data to put recent market activity in context.

The question is, do stock markets go down the most BEFORE a recession, or DURING it, should one occur?

This is particularly applicable today, as the S&P 500 was down almost 20% at one point in December, yet economic data overall was showing a strong economy in the US. Notably, the performance of the S&P 500 in the fourth quarter marked the 11th worst since World War II.
In researching this question, we looked at the performance of the S&P 500 before and during the 12 recessions since World War II.

What we found was that since World War II, stocks on average were actually UP 5.6% DURING recessions; it was in the periods leading into recession that they tended to be down—on average -8.0% from market peak to start of recession. For reference, the average recession lasted 12 months, and the period leading into it averaged nine months, although it ranged from only a few day's notice to as much as two and a half years. See Chart 1 below and Exhibit 1 at the end of this post for full analysis.

Chart 1:



Source: CornerCap and Bloomberg

Similarly, stocks did better DURING the recession in 11 out of the 12 recessionary periods. In six of those periods, stocks were up double digits, while stocks were down in 11 of the 12 periods leading up to recession.

The message here is that:
Stocks have historically been forward-looking and tend to respond to a recession BEFORE it actually happens1. Waiting for official economic data to tell you that a recession is here will generally make you miss the rebound.

In other words, recessions have tended to be lagging indicators of stock market performance, perhaps by a few weeks but more like a year or two. The recessions may not occur at all. But once the recessions occur, the market is already looking beyond them and towards the potential recovery.

It's worth noting that the most recent recession in 2008/9 bucked this trend. It was the longest (by two months) since World War II. Recession started early in 2008, but it was the credit crisis in October that caused major, systemic problems.

The Credit Crisis was no ordinary recession; you'd have to go back to the Great Depression from 1929 to 1938 for a comparable dynamic. In our view, the Credit Crisis and Great Depression are extremely rare events, and we note that the market recovery after the Credit Crisis has been dramatic, extended, and persistent.

Staying the course (i.e., following the investment goals and objectives) during extreme disruptions has generally served clients best.

To drive home that final point, consider Chart 2. This chart takes the 18 worst quarters of performance of the S&P 500 since World War II and maps the ensuing 1-, 3-, and 5- year returns following the downdraft.

Chart 2:

Source: CornerCap and Bloomberg

We should point out that just because the stock market is down significantly does not necessarily imply recession is coming, or that the market won't go down more as it anticipates a possible recession. That said, our bottom line is that:

- Markets are very volatile—and often brutally so—in the short term and medium-term.
- Longer-term, some of the best returns have occurred following the worst periods.
- Given the unpredictability of markets, it is vital to have an investment plan and to follow it.

Exhibit 1:

Recession Start Date	Recession End Date	Recession in Months	S&P Return During Recession	S&P Peak Since Last Recession	Date of Peak	S&P at Recession Start	Return Prior Recession Start	Period from Peak to Start of Recession (in Months)
2/28/45	10/31/45	9	20.1%	14.21	2/20/45	14.3	0.6%	0
11/30/48	10/31/49	12	19.0%	19.25	5/29/46	14.75	-12.8%	31
7/31/53	5/28/54	11	22.9%	26.66	1/5/53	24.75	-4.5%	7
8/31/57	4/30/58	9	-0.9%	49.74	8/2/56	45.22	-5.6%	13
4/30/60	2/28/61	11	19.7%	60.71	8/3/59	54.37	-8.1%	9
12/31/69	11/30/70	12	-1.9%	108.37	11/29/68	92.06	-11.5%	13
11/30/73	3/31/75	17	-7.8%	120.24	1/11/73	95.96	-17.9%	11
1/31/80	7/31/80	7	9.6%	115.2	1/30/80	114.16	-0.5%	0
7/31/81	11/30/82	17	14.2%	140.52	11/28/80	130.92	-3.7%	8
7/31/90	3/28/91	9	7.9%	368.95	7/16/90	356.15	-3.4%	1
3/31/01	11/30/01	9	-0.9%	1527.46	3/24/00	1160.33	-23.1%	12
12/31/07	6/30/09	19	-35.0%	1565.15	10/9/07	1468.36	-5.7%	3
Average		12	5.6%				-8.0%	

Source: CornerCap and Bloomberg

(1) The stock market is not considered to be the only leading indicator of economic activity. Other leading indicators considered to be relevant include average weekly hours worked, new orders index as measured by the Institute for Supply Management, interest rate spreads between 10-year Treasury bonds and federal funds, average consumer expectations for business conditions, to name a few. These do not always move in the same direction at any given time.

Sources:

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