



## The Anatomy of a Recession

Second Quarter 2025

**ClearBridge**



**FRANKLIN  
TEMPLETON**

**Past performance is no guarantee of future results.** Financial term and index definitions are available in the appendix.

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## Economic Outlook

# U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall dashboard is currently signaling expansion

		May 31, 2025	March 31, 2025	December 31, 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

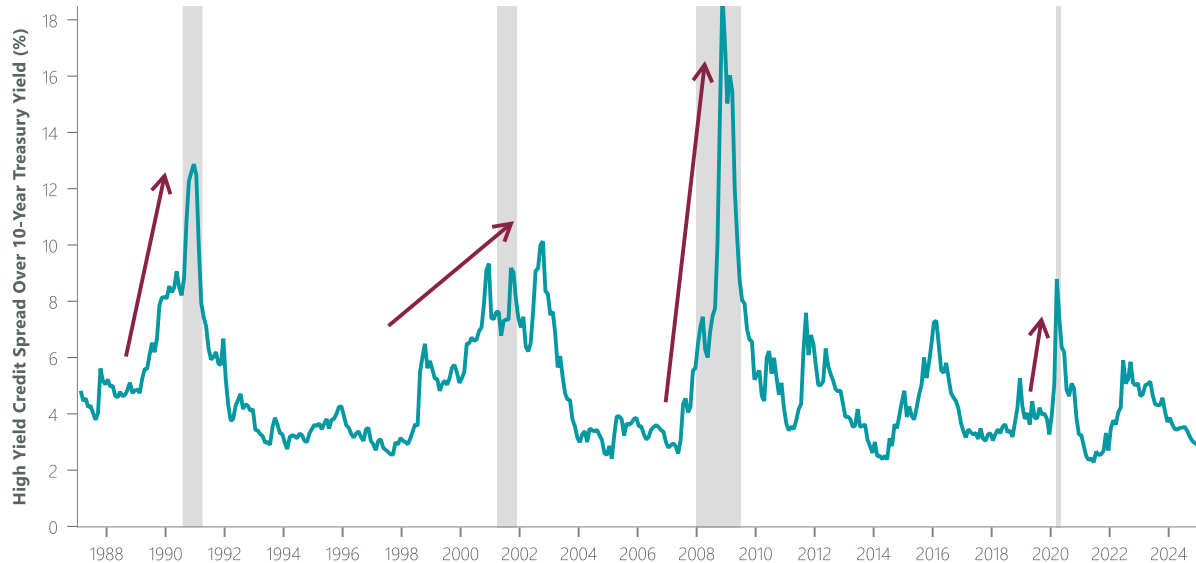
## U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall dashboard is currently signaling expansion

		Current	2020	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Consumer	Housing Permits	↑	↑	×	●	×	×	×	×	×
	Job Sentiment	×	●	×	×	×	×	●	●	●
	Jobless Claims	↑	↑	●	×	×	×	×	↑	×
	Retail Sales	↑	↑	×	×	×	×	×	●	×
	Wage Growth	↑	×	×	×	×	×	×	×	×
Business Activity	Commodities	↑	↑	×	×	×	×	●	●	●
	ISM New Orders	×	●	×	×	×	×	×	×	×
	Profit Margins	●	×	×	×	×	×	×	●	×
	Truck Shipments	↑	↑	●	×	×	×	×	n/a	n/a
Financial	Credit Spreads	↑	↑	×	×	×	×	×	↑	●
	Money Supply	↑	↑	×	×	×	×	×	×	×
	Yield Curve	●	×	×	×	×	×	×	×	×
<b>Overall Signal</b>		↑	●	×	×	×	×	×	●	×

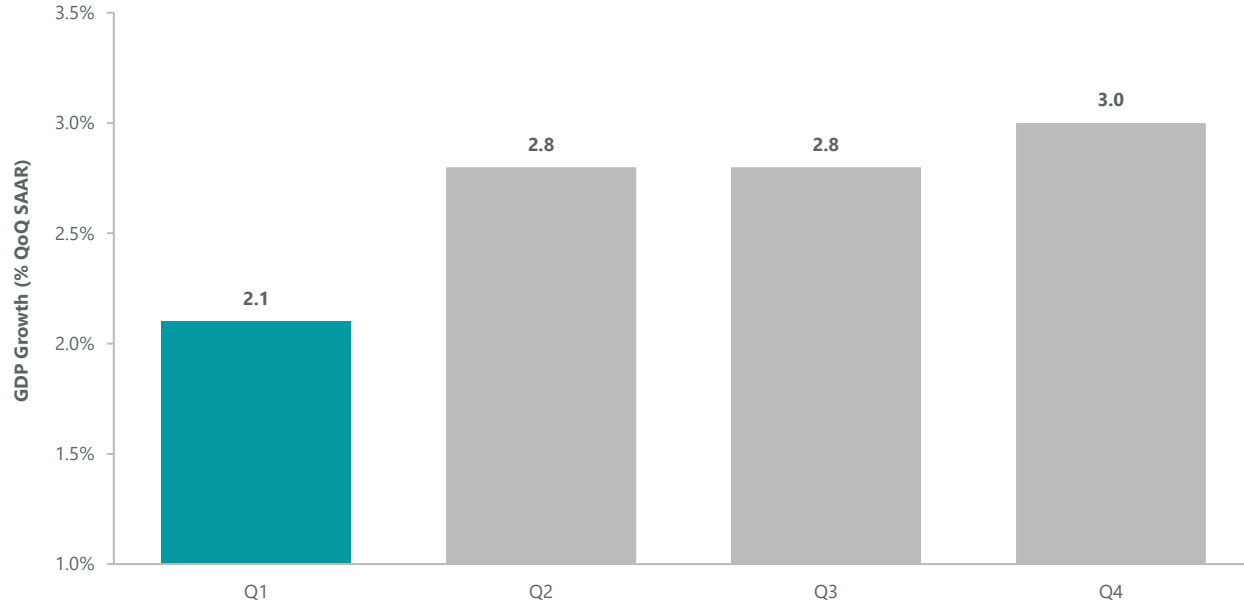
↑ Expansion      ● Caution      × Recession

## U.S. Recession Risk Indicator: High Yield



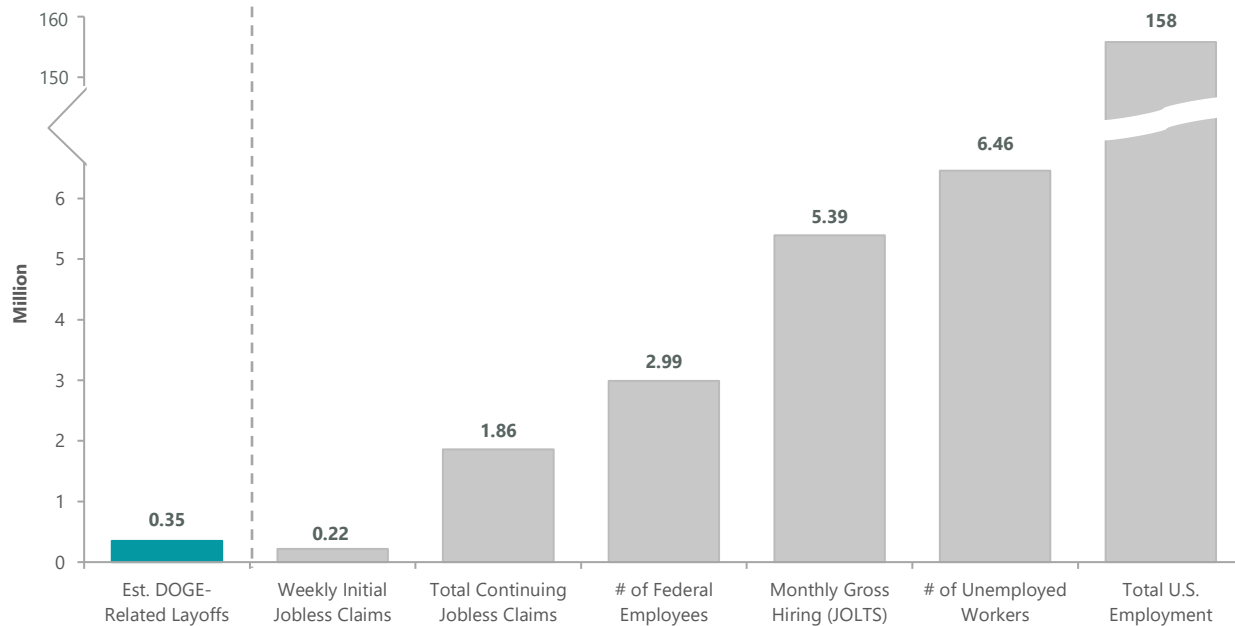
- ▶ Although the U.S. economy appears to have hit a soft patch amid elevated policy uncertainty, high yield credit spreads remain relatively benign.
- ▶ So far, we view this as a positive given credit spreads are one of the highest weighted indicators on the ClearBridge Recession Risk dashboard.

## 1Q Growth Score Common



- ▶ Since the Global Financial Crisis (GFC), the first quarter has tended to be the weakest economically before giving way to more robust growth during the rest of the year.

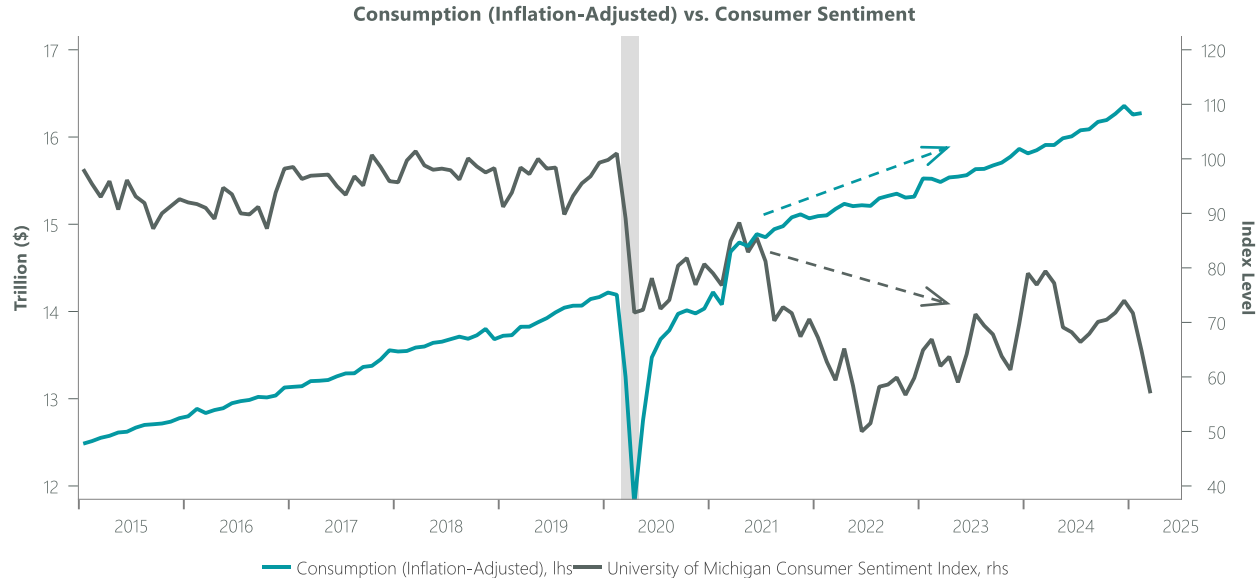
## Headlines Scarier Than Reality



- **Although DOGE-related layoffs have dominated the headlines, the actual impact appears manageable in context of the broader U.S. labor market.**

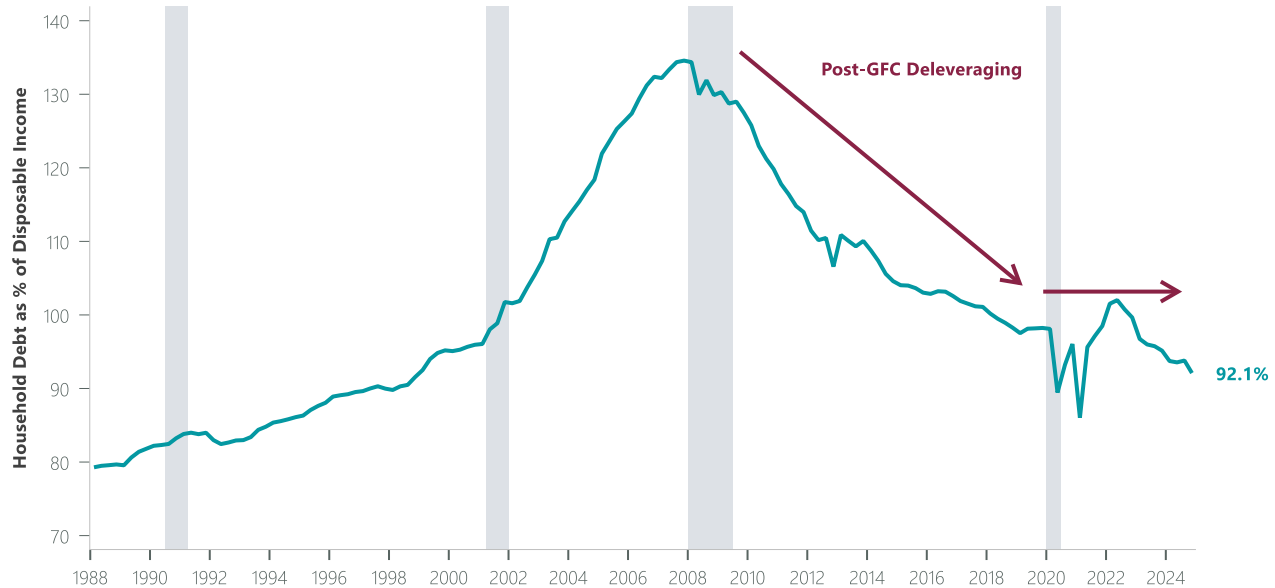


# Actions Speak Louder Than Words



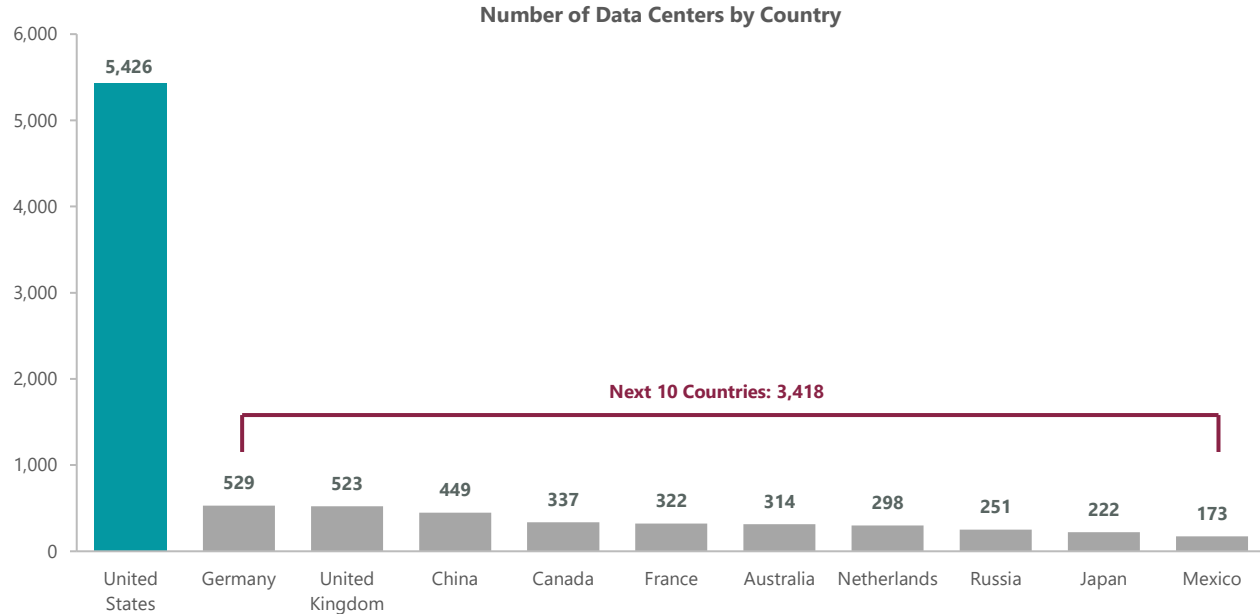
- ▶ **While consumer sentiment has remained in the doldrums since the COVID-19 pandemic, this has not led to changes in overall spending patterns.**
- ▶ **The recent drop in sentiment has been largely fueled by tariff-related uncertainty, but a healthy labor market and strong household balance sheets provide solid footing for 2025 spending.**

## Consumer Deleveraging Done



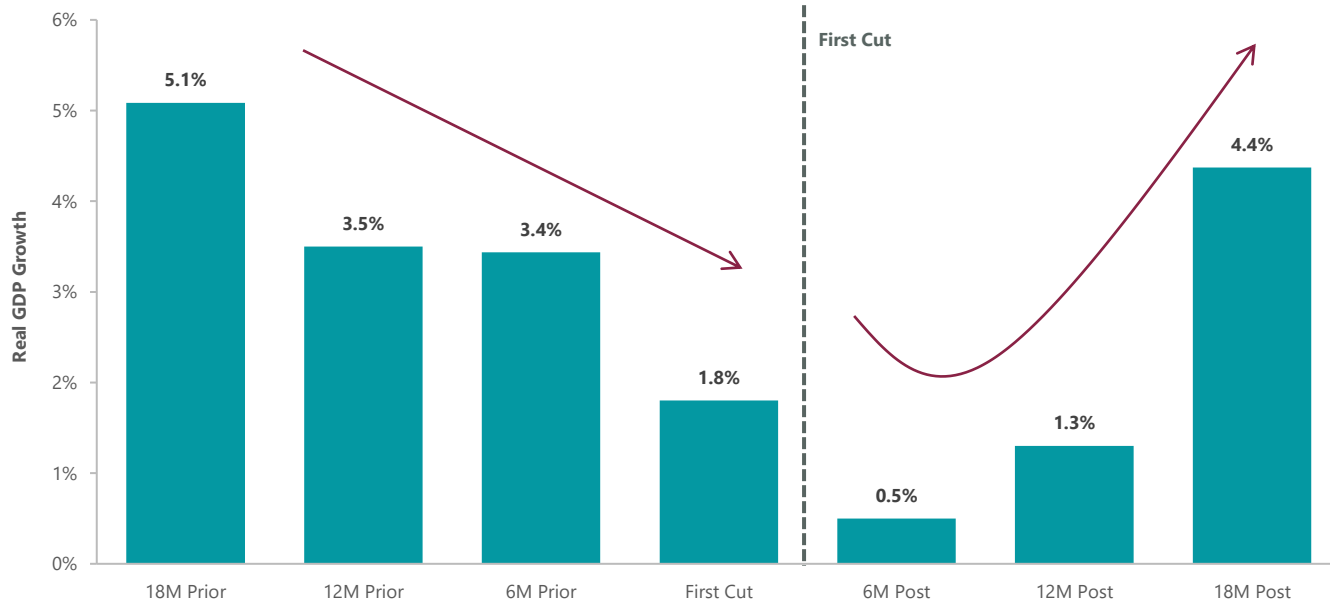
- ▶ **Consumer deleveraging efforts were a key component of slower GDP growth following the GFC.**
- ▶ **With household net worth up by \$49.9T since 2020, the U.S. consumer appears to be in a position to sustain their spending even as the economy normalizes.**

## U.S. Exceptionalism: AI Investment Boom



- ▶ **The U.S. is the leading global destination for AI investment, outpacing the next 10 countries combined by ~2,000 data centers.**

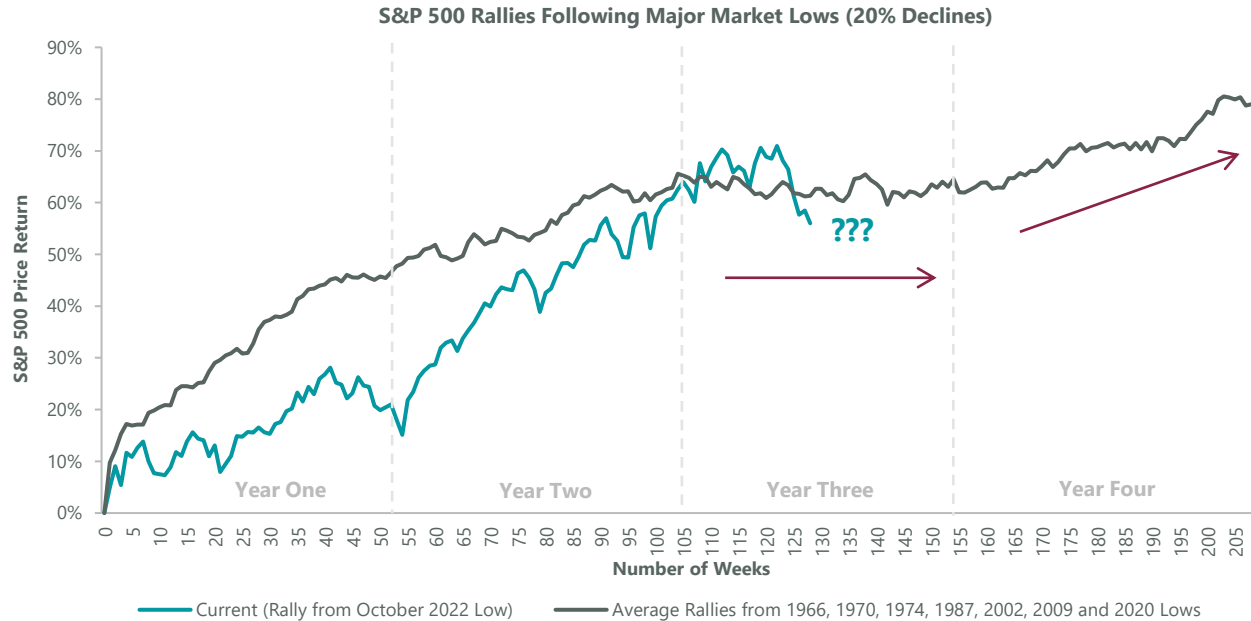
## Monetary Support Kicking In?



- ▶ **Sustained Fed cut cycles have historically led to inflections in economic growth two quarters later.**
- ▶ **With the Fed's first cut having occurred over six months ago, the economy should start to see the benefits from 2024 rate cuts.**

## Market Outlook

# The Year-Three Digestion



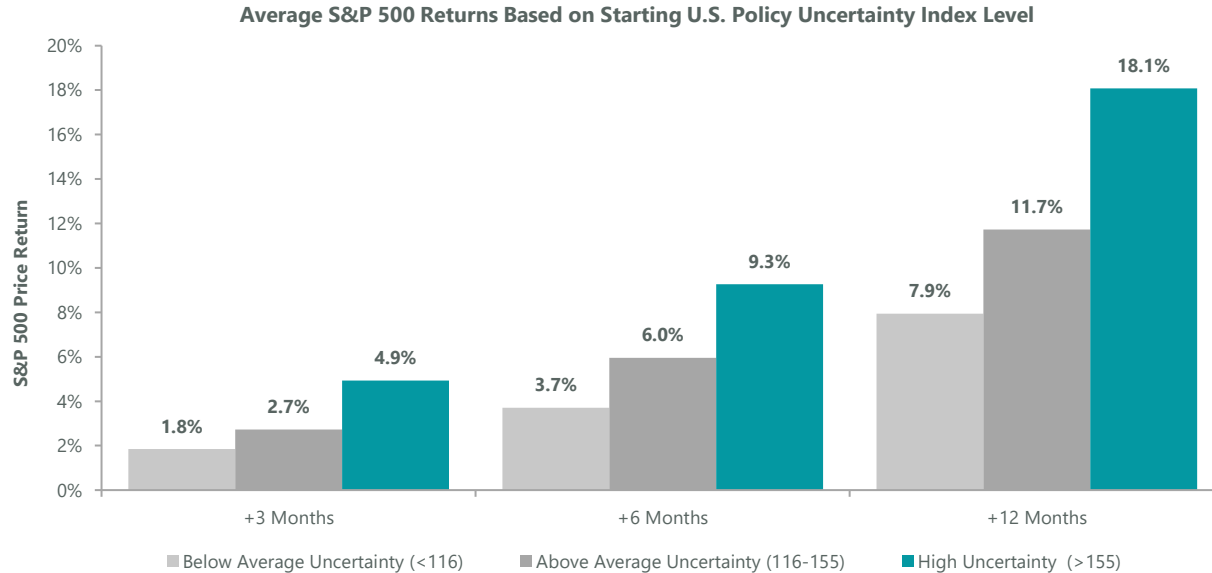
- **Historically, the third year of a new bull market has experienced a period of digestion before giving way to further upside in year four.**

## Tariff Turbulence?



- ▶ **The S&P 500 index traded largely sideways during the period of tariff escalation during the first Trump administration.**
- ▶ **With tariffs front and center, policy sequencing has impacted equity market behavior so far in 2025. The more market-friendly policies of tax cuts and deregulation should arrive in the second half of the year.**

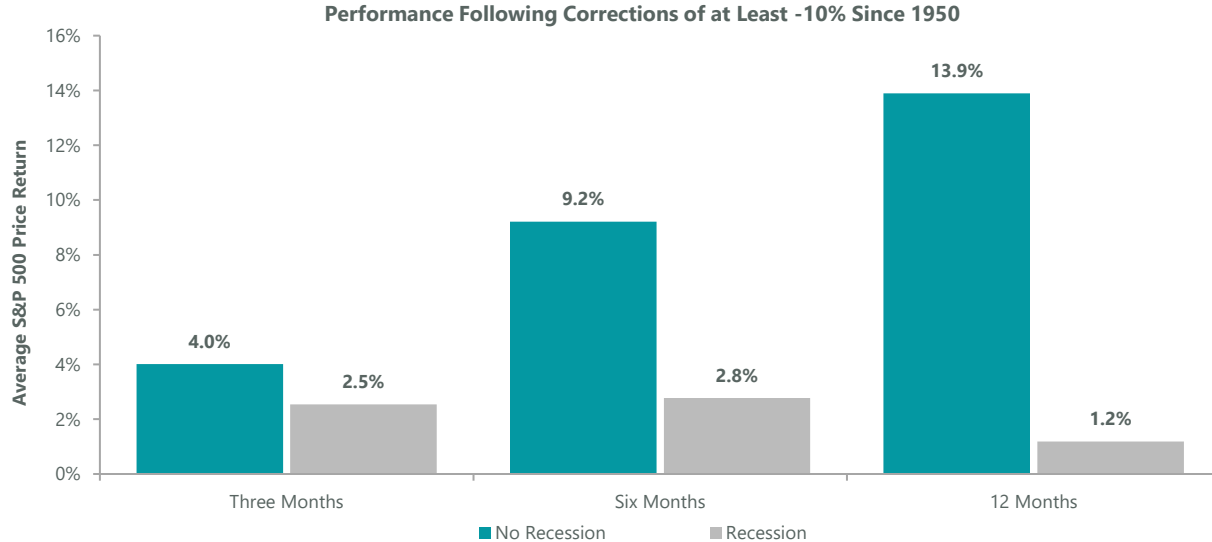
# Certainty in Uncertainty



- **Over the past 40 years, periods of elevated U.S. policy uncertainty (such as today) have historically given way to superior forward equity market returns as clarity is restored.**

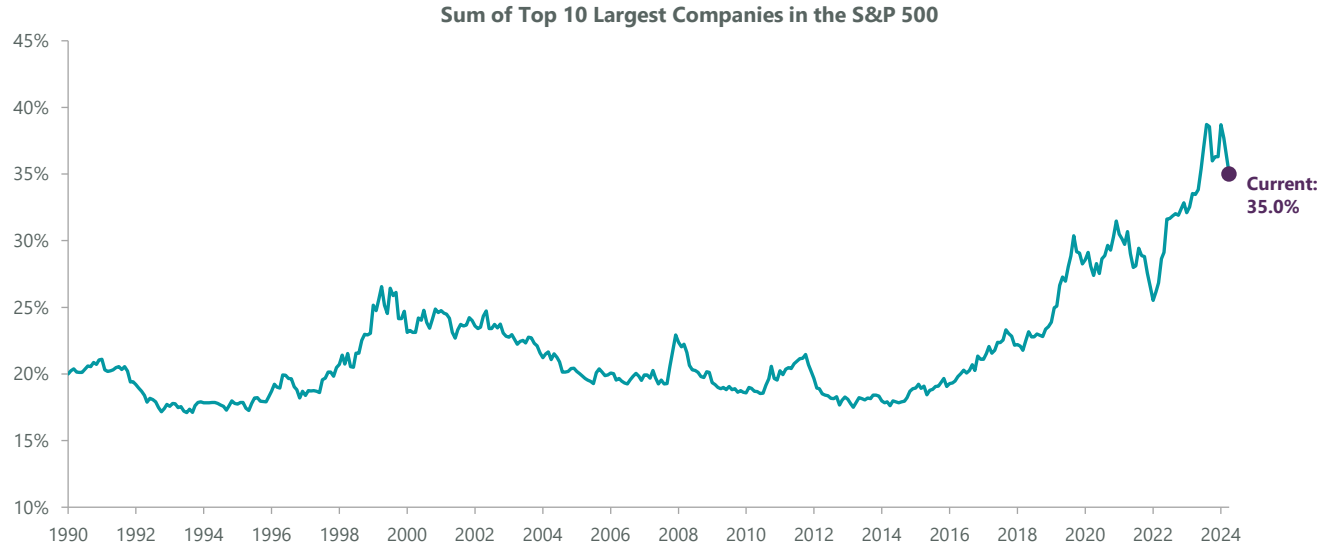


## Buy the Correction?



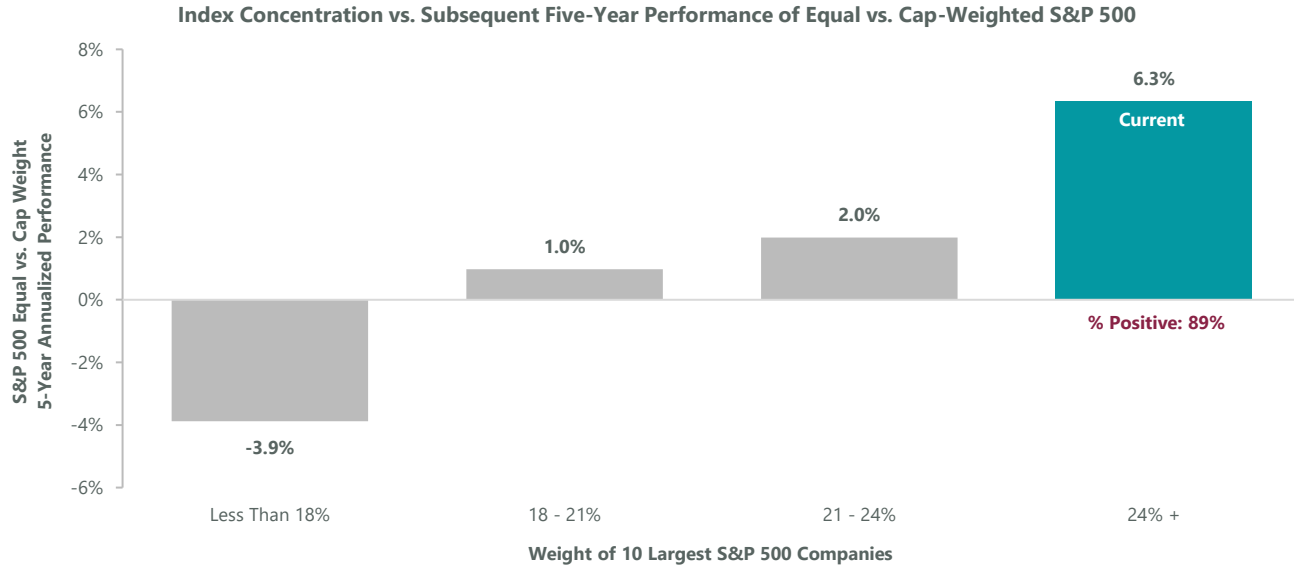
- ▶ **Investors have historically been rewarded for buying U.S. equities following corrections of at least -10% that did not lead to recessions.**
- ▶ **History suggests the current pullback could be an opportunity for long-term investors should the expansion continue.**

# Trouble Concentrating?



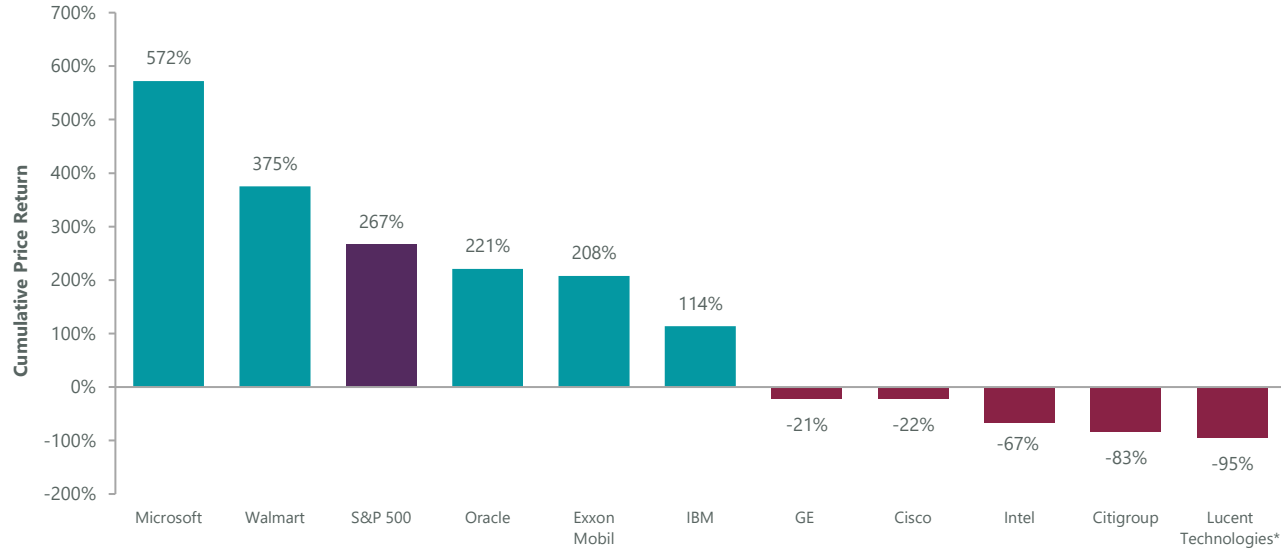
- ▶ **The weight of the largest stocks in the benchmark has moved down but remains elevated compared to history.**
- ▶ **This move has coincided with outperformance for the average stock so far this year, a trend we believe will continue.**

## Concentration Leads to Broadening



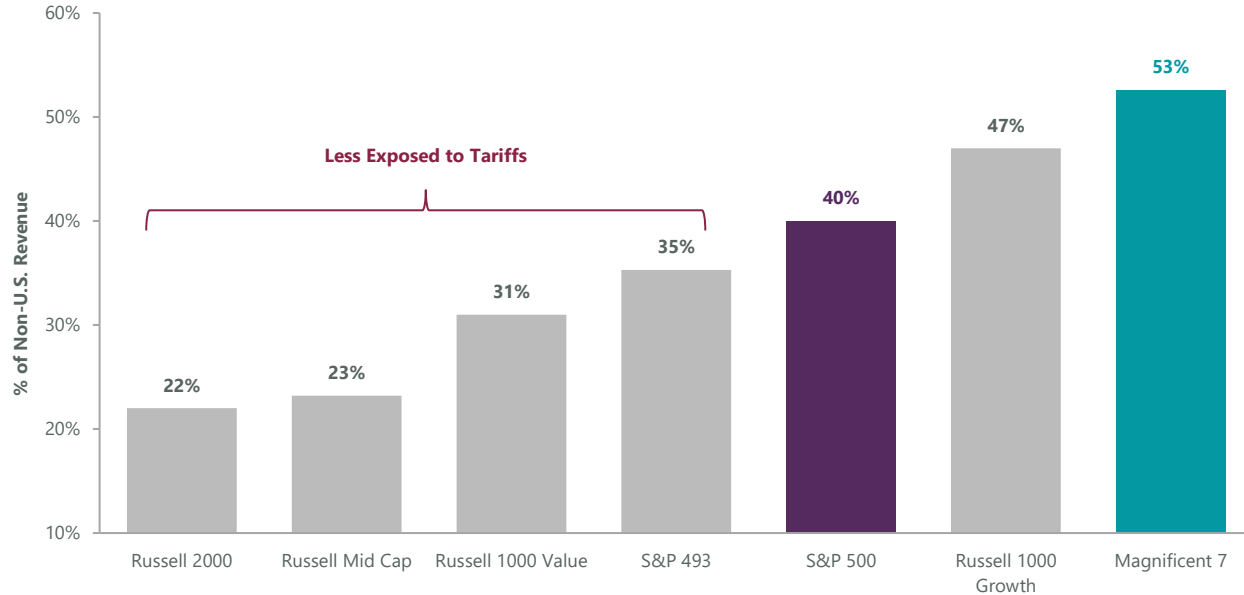
- ▶ **When the top 10 weights in the S&P 500 have historically accounted for over 24% of the benchmark, the equal-weight S&P 500 has outperformed its cap-weighted counterpart by an average of 6.3% (annualized) over the next five years.**
- ▶ **The top 10 weights in the S&P 500 currently make up 35% of the benchmark.**

## Where Are They Now: Dot-Com Darlings



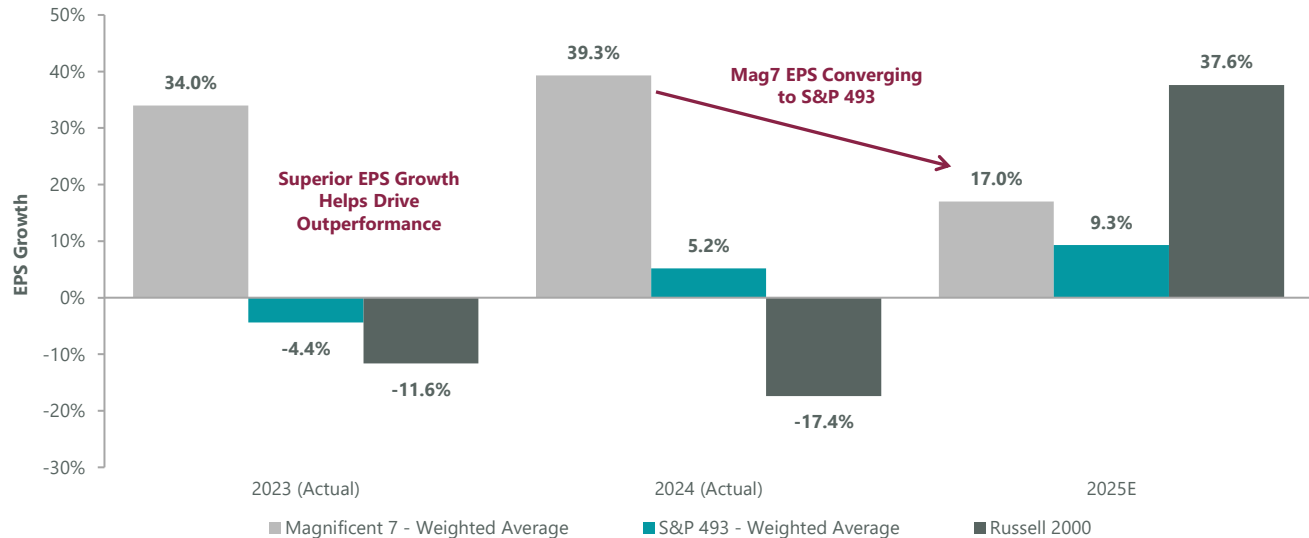
- ▶ **Following the peak of the dot-com mania, the prospects of the 10 largest S&P 500 constituents have varied widely.**
- ▶ **We believe that a similar dynamic may play out in the coming years, presenting a potential opportunity for active managers.**

## Mag7 Soft Spot?



- **The Magnificent 7 stocks derive a substantially larger portion of their revenues from outside of the United States, making them more exposed to the risks from a trade war**

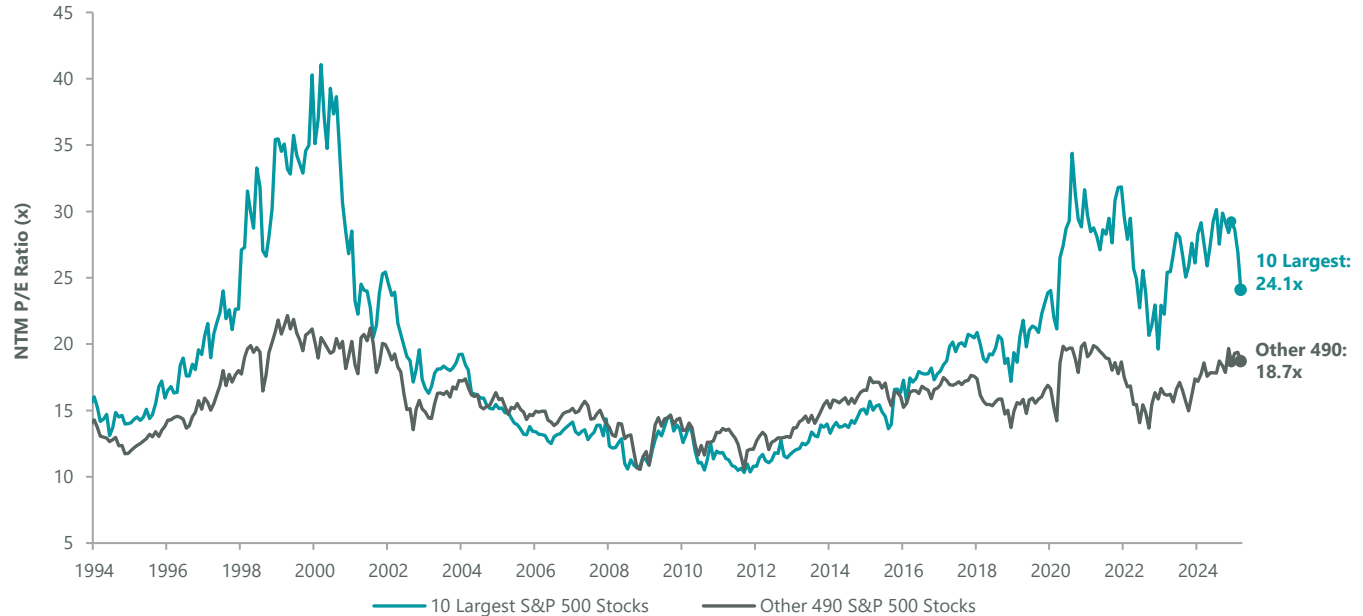
## Mag7 Advantage Dissipating



- ▶ **A key driver of the Magnificent 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.**

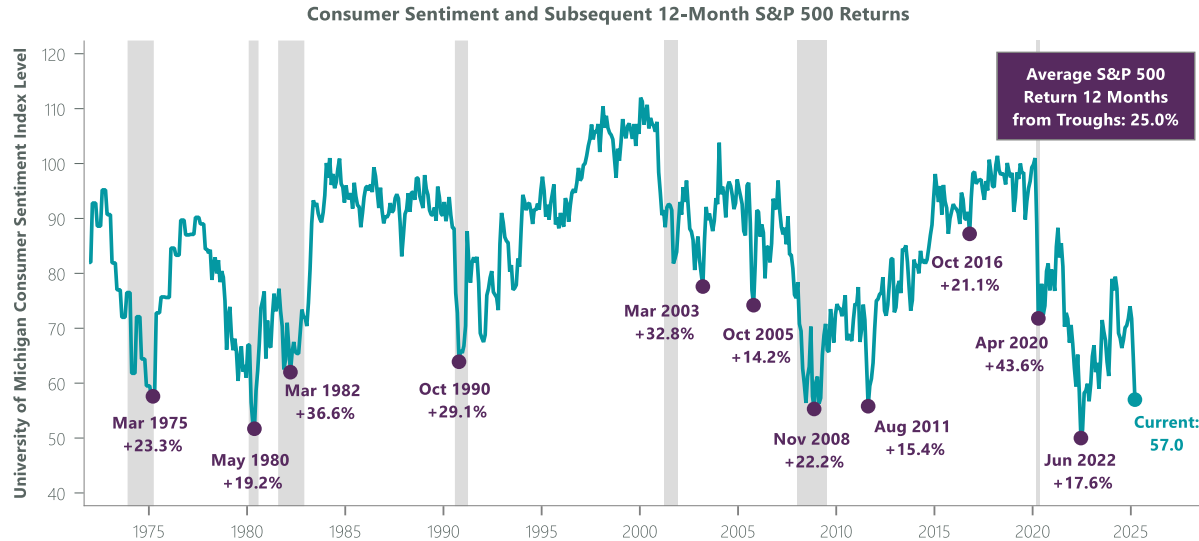
The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of Dec. 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.

# Largest Stocks Distorting Valuations



- ▶ The largest stocks in the S&P 500 trade at a significant premium even after de-rating 5x turns in 1Q25.
- ▶ The typical stock (other 490) still trades at a more reasonable valuation, closer to historical averages.

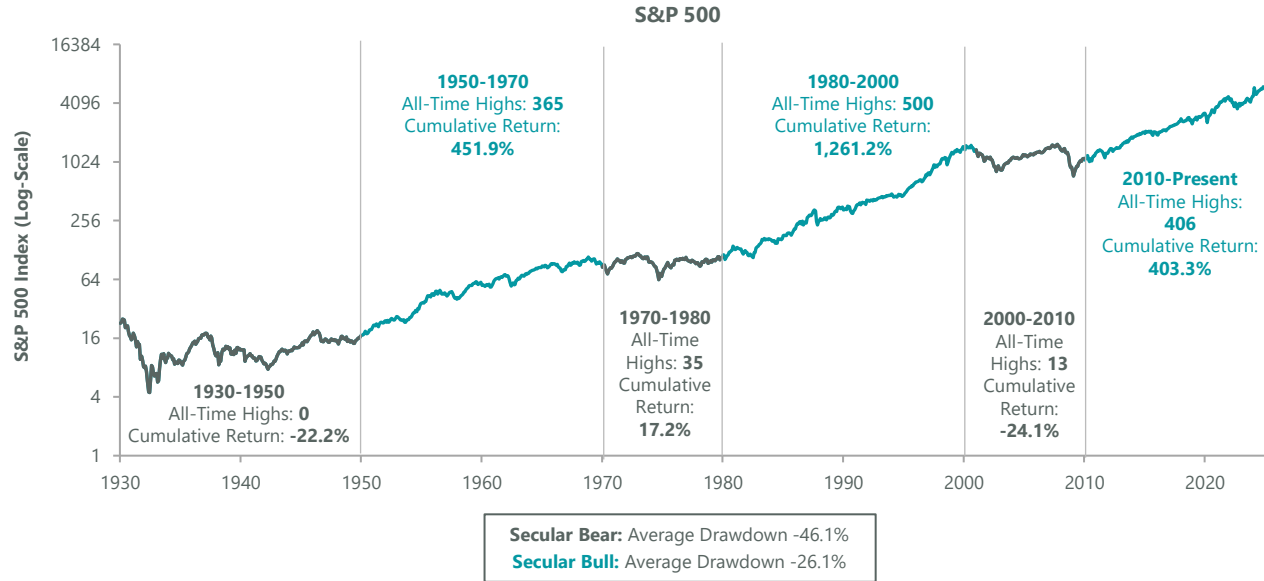
# Consumer Confidence: The Contra-Indicator



- ▶ **Consumer sentiment has historically been a contra-indicator for equity investors when hitting extreme levels.**
- ▶ **If this historical relationship holds, plummeting sentiment may prove an attractive entry point for long-term equity investors.**



# New Secular Bull Market?



- **In the 12 months following an all-time high, stocks have historically been up 8.4% on average with positive returns 71% of the time.**

# Economic and Market Summary

Second Quarter 2025

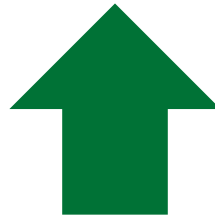
## U.S. Economic Outlook

- The U.S. economy has continued to hold up despite the emergence of a soft patch in Q1. The overall signal from the ClearBridge Recession Risk Dashboard remains in green “expansion” territory.
- Elevated policy uncertainty has weighed on consumer, business, and investor sentiment. Whether or not weaker outlooks translate into softer activity will be a key determinate of the economic path forward.

## U.S. Market Outlook

- The S&P 500 has experienced a correction (~10%) and a leadership rotation in Q1. A period of digestion was anticipated coming into the year due to policy sequencing with tariffs coming before tax cuts.
- Elevated policy uncertainty has weighed on U.S. equities; however, history shows these periods have led to strong forward market returns as conditions normalize.
- International, value, and equal-weight have handily outperformed this year, which we believe emphasizes the importance of equity portfolio diversification.

### Recession Dashboard Overall Signal



**Expansion**

# One-Year Outlook

Themes That May Drive the Market Over the Next 12 Months



Fixed Income



Fundamentals



Market Leadership



International



Investor Pitfalls

## Fixed Income



**Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default. **Floating-rate loans** and debt securities are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

## Normalizing Vol, Higher Returns?

**Historical 12-Month Annualized Returns By Starting MOVE Index Level**

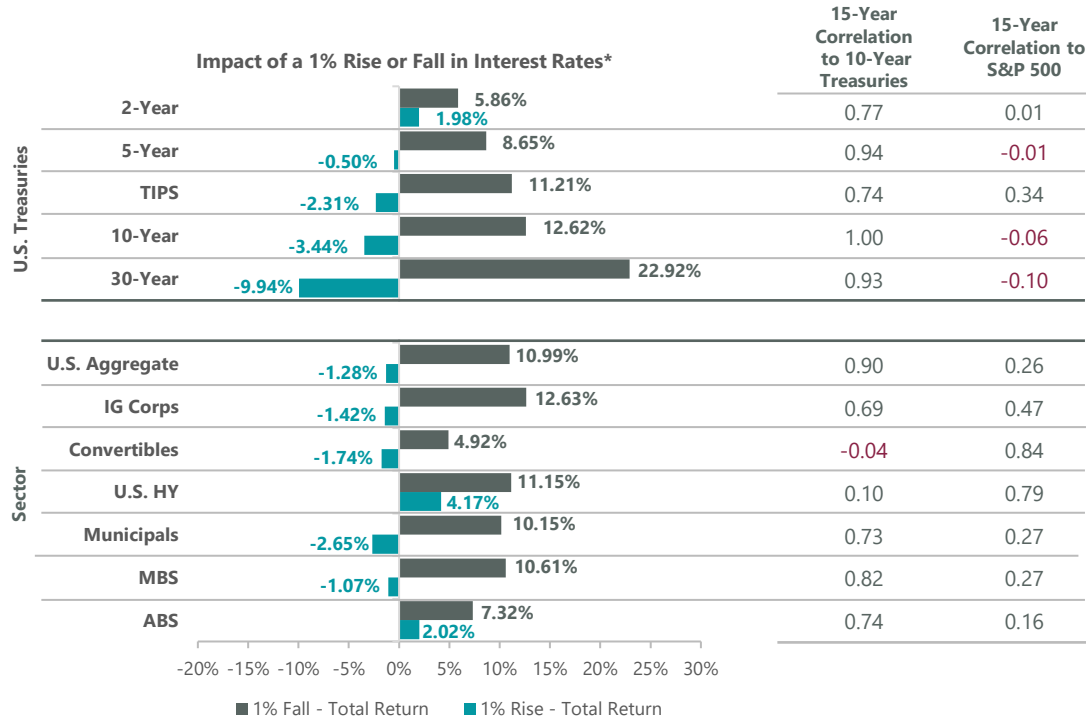
	Short-Term Bonds	U.S. Treasury Bonds	MBS	Global Bonds	Multi-Sector	TIPS	Leveraged Loans	Corporate Bonds	High Yield Bonds	Emerging Market Bonds
<b>MOVE &lt;76</b>	1.85%	2.15%	2.09%	1.27%	1.41%	2.74%	4.10%	3.05%	5.25%	3.34%
<b>MOVE 76-100</b>	2.92%	4.25%	4.18%	3.18%	3.31%	6.03%	4.49%	4.92%	4.95%	8.36%
<b>MOVE &gt;100</b>	4.09%	4.91%	5.41%	5.77%	5.98%	6.74%	6.88%	7.41%	10.55%	12.61%
<b>Average</b>	2.90%	3.64%	3.77%	3.33%	3.49%	4.96%	5.18%	5.05%	7.05%	7.84%

**Current MOVE Index (as of March 31, 2025): 101.35**

- ▶ **Historically, when bond market volatility has been elevated at these levels (MOVE > 100), subsequent 12-month returns were strong.**

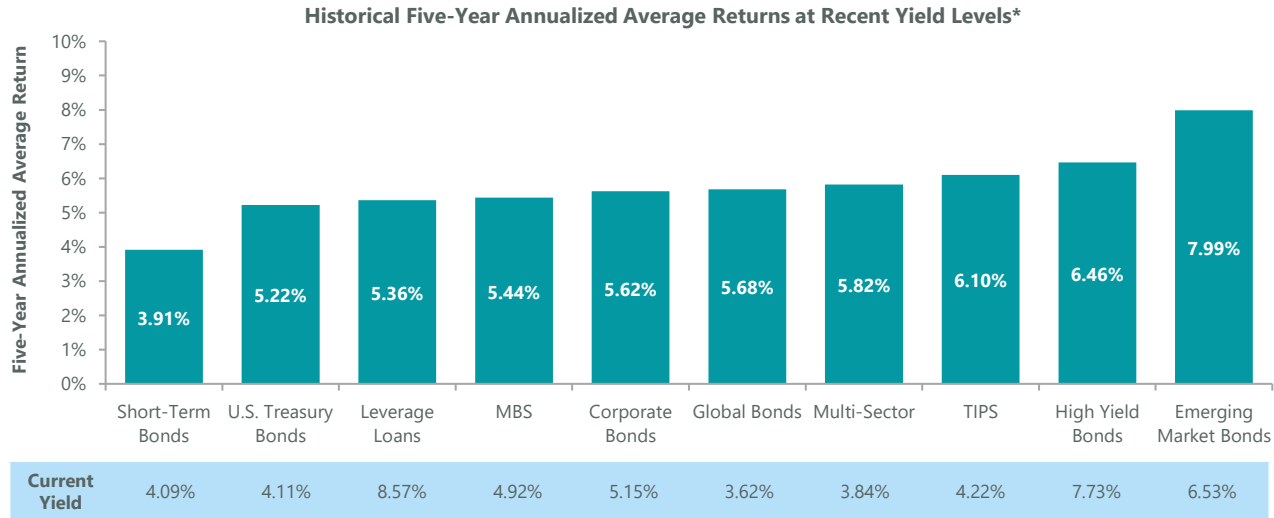
The MOVE Index measures U.S. interest rate volatility through U.S. Treasury options pricing and is designed to measure fixed income market sentiment. Data represents period from January 29, 1999 – March 31, 2025, as of March 31, 2025. Sources: ICE, Bank of America Merrill Lynch, Bloomberg, Credit Suisse. **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.

## Interest Rate Impact by Asset Class



\*Total return, assumes a parallel shift in the yield curve. Data as of March 31, 2025. Sources: Bloomberg, ICE, Credit Suisse, S&P, Morningstar Direct. **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.

## Recent Yields Offer Attractive Return Potential

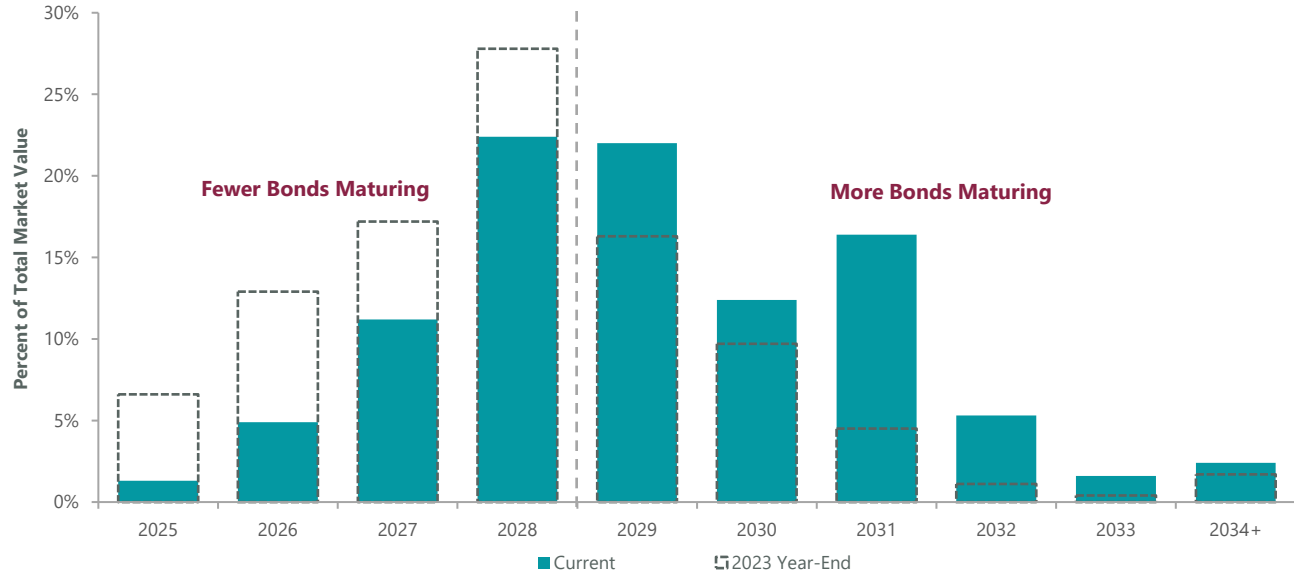


- **Following the strongest tightening cycle in 40 years, bond yields have risen to levels that have historically offered attractive five-year returns.**

\*Returns represent the average five-year annualized return between Jan. 29, 1999 and March 31, 2025 when the current yield was within 50 bps on March 31, 2025 for each fixed income sector. Short-Term Bonds: Bloomberg 1-3 Yr US Gov/Credit Total Return Index, Corporate Bonds: US Corporate Total Return Value Unhedged Index, MBS: Bloomberg US MBS Index Total Return Value Unhedged USD, Leverage Loans: Credit Suisse Leveraged Loan Total Return, Global Bonds: Bloomberg Global-Aggregate Total Return Index Value Unhedged USD, U.S. Treasury Bonds: Bloomberg US Treasury Total Return Unhedged USD, Multi-Sector Bonds: Bloomberg Multiverse Total Return Index Value Unhedged USD Index, High Yield Bonds: Bloomberg US Corporate High-Yield Total Return Index Value Unhedged USD Index, TIPS: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged USD, Emerging Market Bonds: Bloomberg EM USD Aggregate Total Return Index Value Unhedged. As of March 31, 2025. Sources: Bloomberg, Credit Suisse. **Past performance does not guarantee 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.

# One Less Brick In The Wall

## High Yield Debt Maturity Schedule\*

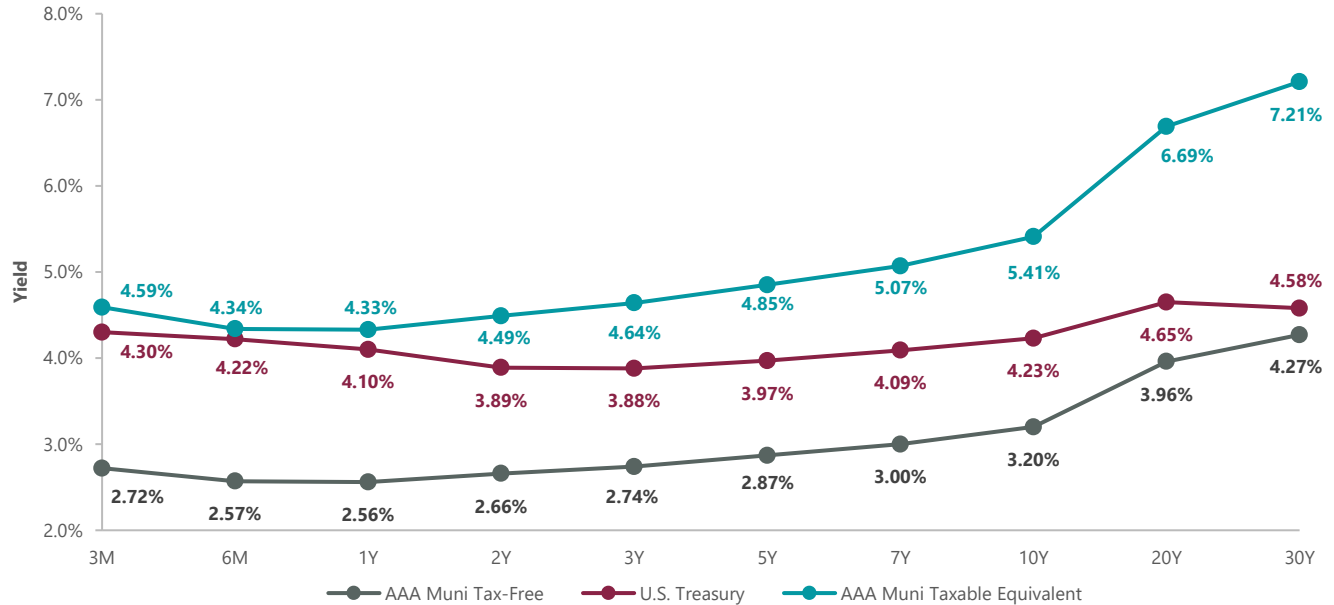


- **Companies with sub-investment-grade ratings have taken advantage of ample liquidity in recent years and termed out their debt, meaningfully reducing rollover risk.**

\*The chart represents the amount of high-yield debt maturing as a percent of total outstanding high-yield debt by calendar year for the ICE BofA ML U.S. High Yield Index. Maturities shown are from 2024 through 2034+. As of Feb. 28, 2025, latest available as of March 31, 2025. Sources: ICE, Bank of America Merrill Lynch Global Research. Due to rounding, figures may not total 100%. **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.



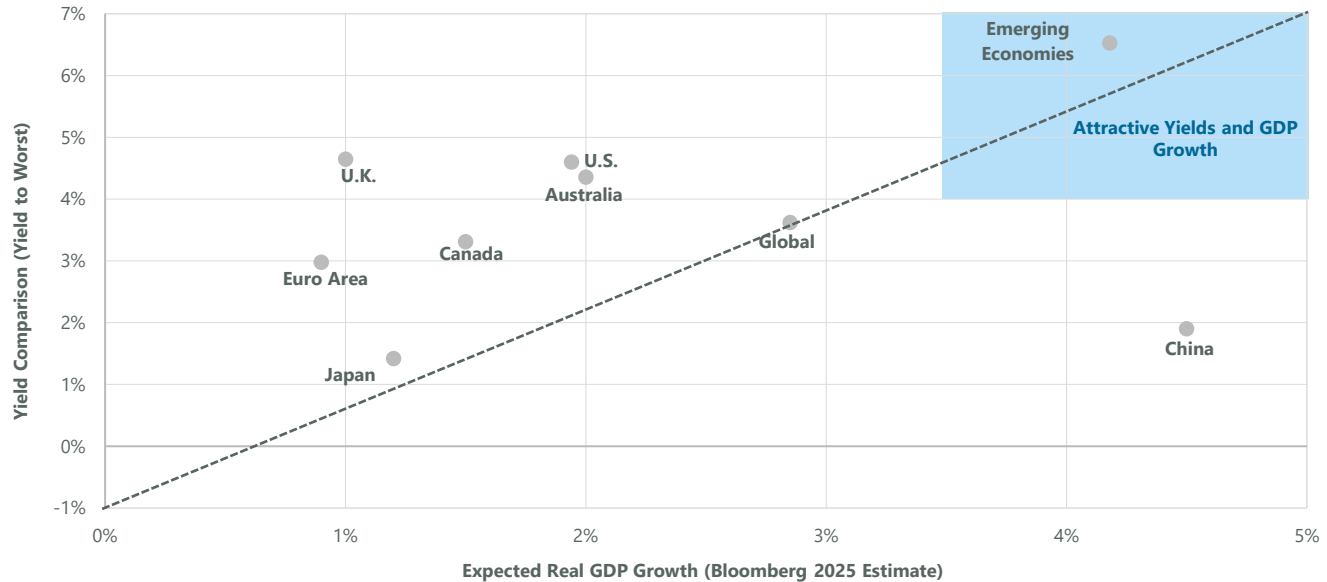
## Munis Attractive After Tax



- **With the recent rise in interest rates, high-quality municipal bonds now offer attractive yields on an after-tax basis compared with U.S. Treasuries.**

As of March 31, 2025. Source: Bloomberg. **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.

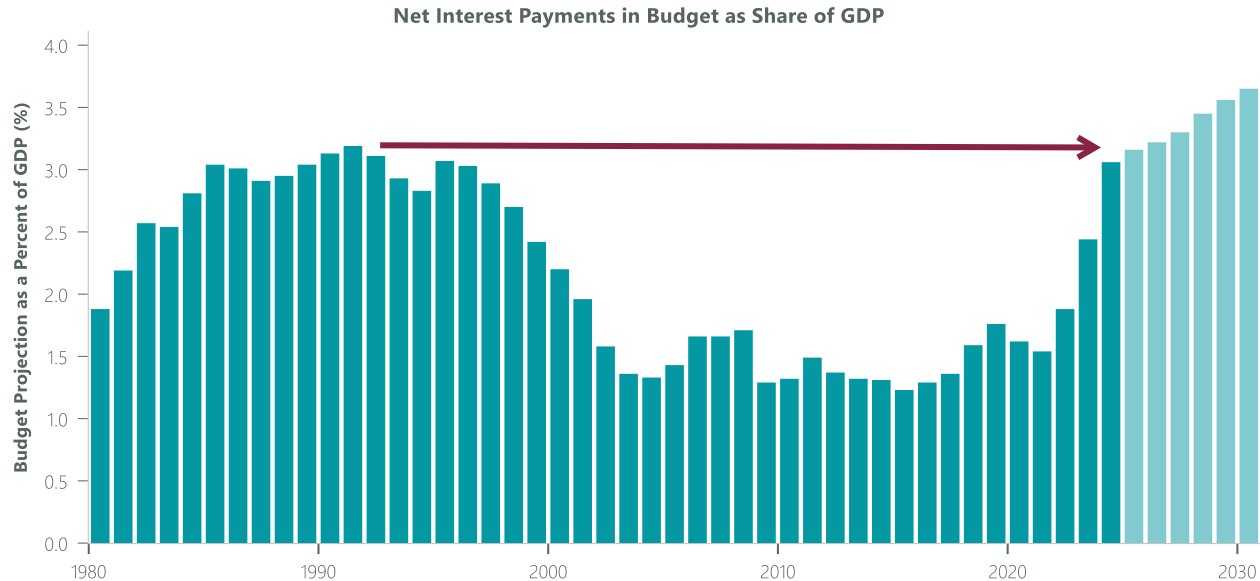
## Emerging Markets: A Dual Threat



- ▶ **Consensus estimates call for emerging markets to see strong GDP growth in 2025.**
- ▶ **Emerging markets also currently boast the highest yields globally, a potentially attractive combination for long-term investors.**

As of March 31, 2025. Source: Bloomberg. The Bloomberg 2025 estimate represents the consensus average year-over-year GDP growth. There is no assurance that any estimate, forecast or projection will be realized. **Past performance is not a guarantee of future results.**

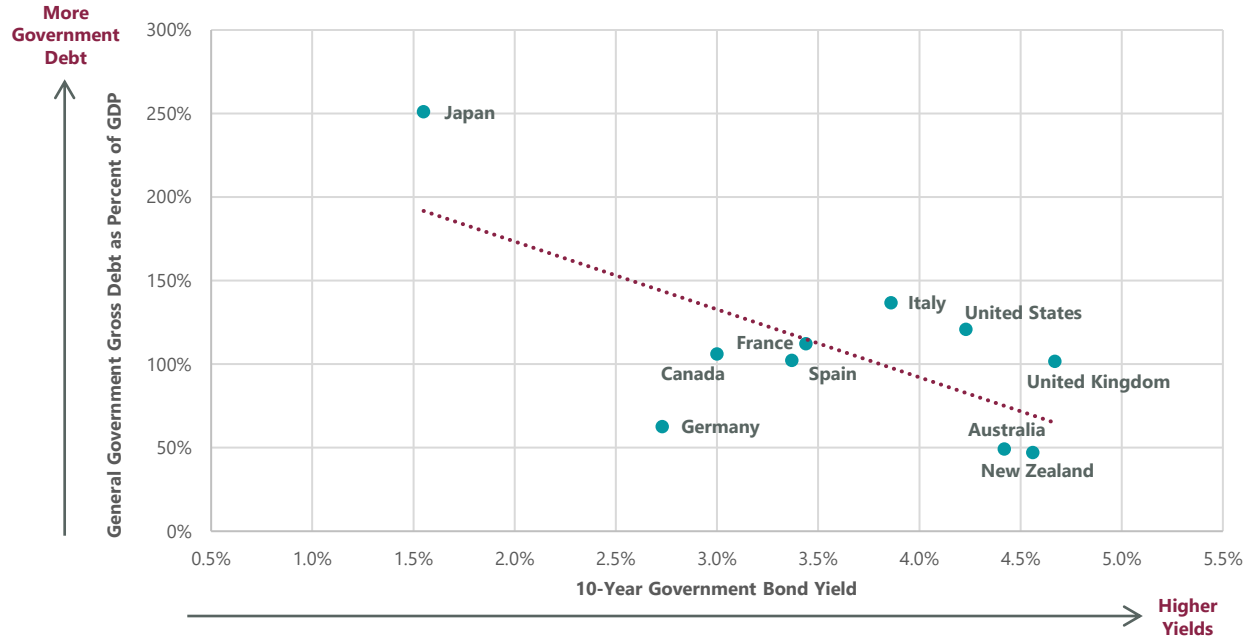
# When Will U.S. Debt Be An Issue?



- ▶ **Despite a dramatic increase in government debt outstanding since the GFC, total debt servicing costs as a percent of GDP declined due to falling rates.**
- ▶ **Current CBO projections show the interest burden returning to early 1990s levels over the next couple of years.**

Data as of Jan. 17, 2025, latest available as of March 31, 2025. Sources: U.S. Congressional Budget Office (CBO), Macrobond. There is no assurance that any estimate, forecast or projection will be realized.

# Debt Doesn't Determine Yield



- **Contrary to popular belief, higher government debt loads do not translate to higher yields on long-term government debt.**

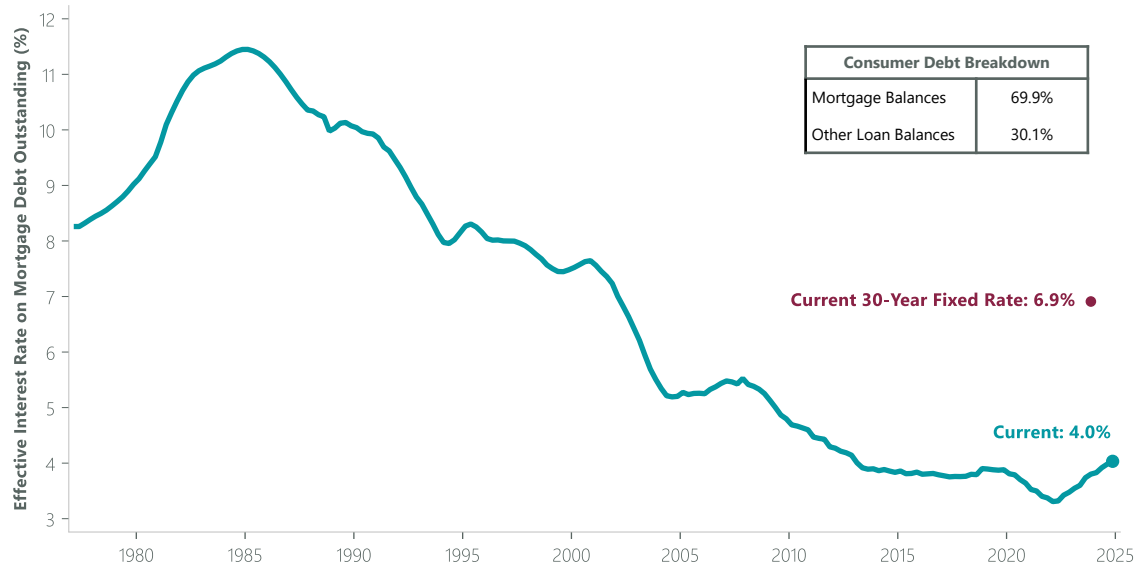
Data as of March 31, 2025. Sources: IMF World Economic Outlook Database October 2024, Federal Reserve, Reserve Bank of New Zealand, Macrobond. **Past performance is not a guarantee of future results.**

## Fundamentals



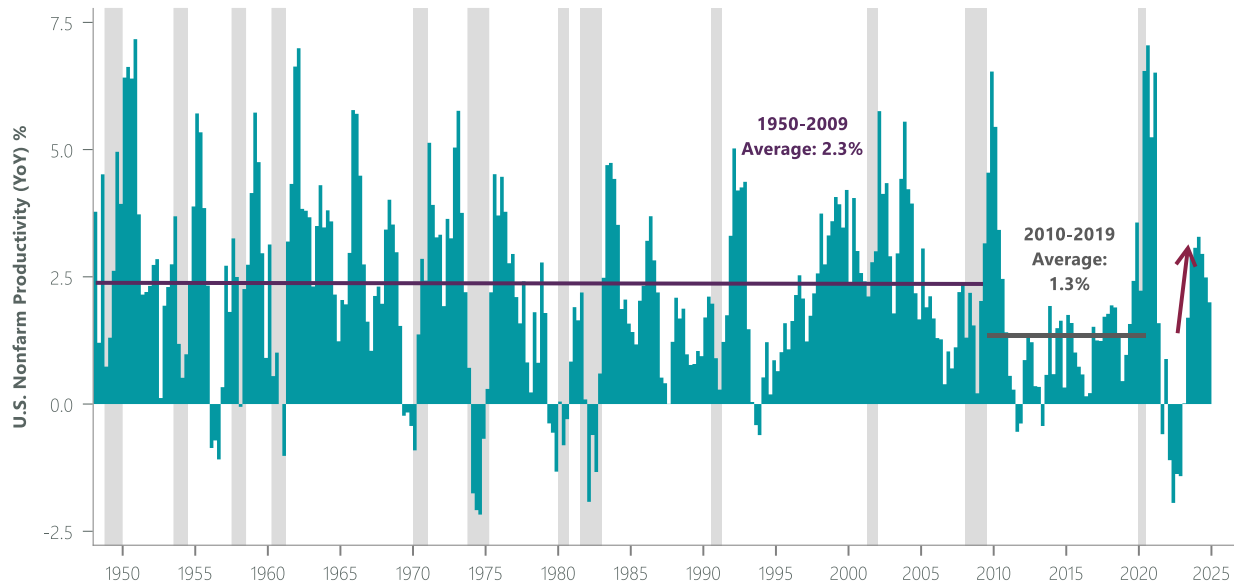
**Equity securities** are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **Large-capitalization** companies may fall out of favor with investors based on market and economic conditions. **Active management** does not ensure gains or protect against market declines. **Diversification** does not guarantee a profit or protect against a loss.

## Consumers Are Locked In



- ▶ **The U.S. consumer has become less interest rate sensitive since the GFC when ultra low rates encouraged greater utilization of fixed rate mortgages over floating. Mortgage debt accounts for over two-thirds of U.S. consumer borrowing.**
- ▶ **While the current 30-year fixed rate mortgage is nearly 7%, the average rate Americans are paying is just 4.0%.**

# U.S. Exceptionalism: Productivity



- ▶ **Productivity dropped well below the historical average in the aftermath of the GFC but has rebounded more recently and is now back in-line with the long-term average.**
- ▶ **While the benefits from AI have not yet arrived, this technology could unleash a sustained productivity wave similar to the internet revolution.**

# Faster Corrections Have Led to Stronger Rebounds

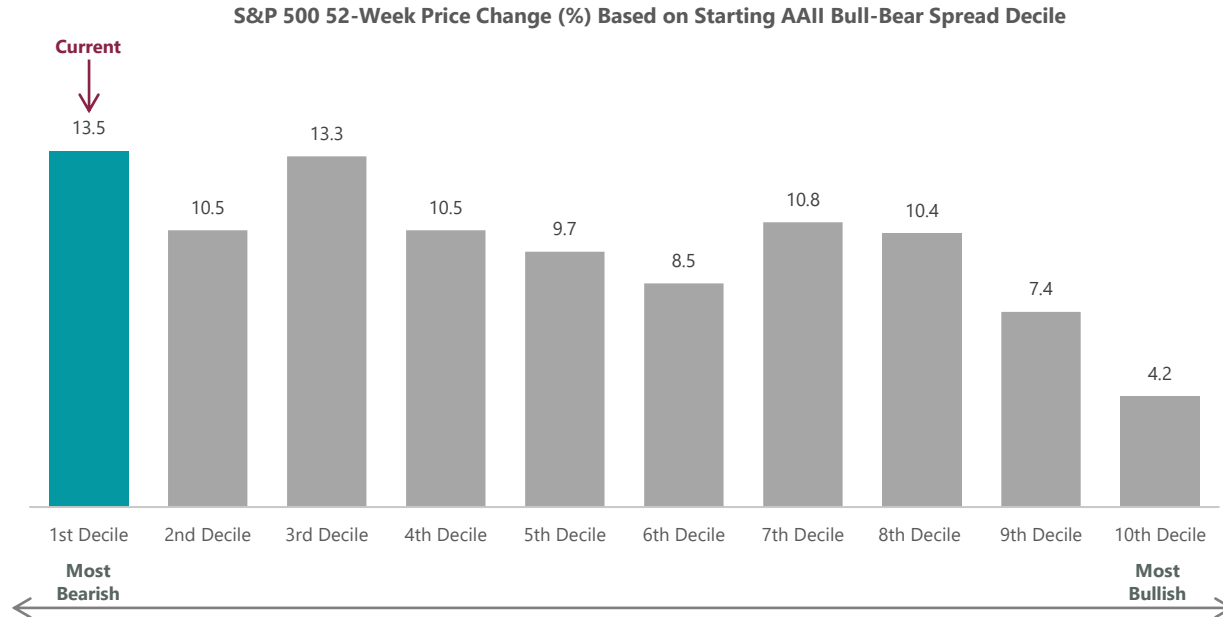
**S&P 500 Corrections of at Least -10% since 1950**

Market Peak	10% Correction Date	# of Trading Days	3-Month Return (%)	6-Month Return (%)	12-Month Return (%)
02/19/2020	02/27/2020	7	1.9	17.0	27.9
01/26/2018	02/08/2018	10	3.5	10.7	4.9
09/23/1955	10/11/1955	13	8.8	18.4	14.7
06/12/1950	06/29/1950	14	11.5	17.1	20.2
10/05/1979	10/25/1979	15	13.6	5.2	29.9
10/07/1997	10/27/1997	15	10.5	23.9	21.5
03/24/2000	04/14/2000	16	11.3	1.3	-12.8
02/19/2025	03/13/2025	17	?	?	?
7/15/1975	8/8/1975	19	3.8	15.6	20.7
2/13/1980	3/10/1980	19	7.7	17.2	22.5
04/23/2010	05/20/2010	20	0.0	12.0	24.4
<b>10 Fastest Correction Average</b>			<b>7.3%</b>	<b>13.8%</b>	<b>17.4%</b>
<b>10 Fastest Correction Hit Rate</b>			<b>100%</b>	<b>100%</b>	<b>90%</b>
<b>34 Corrections Since 1950 Average</b>			<b>3.5%</b>	<b>7.1%</b>	<b>9.8%</b>
<b>34 Corrections since 1950 Hit Rate</b>			<b>71%</b>	<b>71%</b>	<b>74%</b>

► **The fastest corrections of at least -10% have historically seen stronger rebounds.**



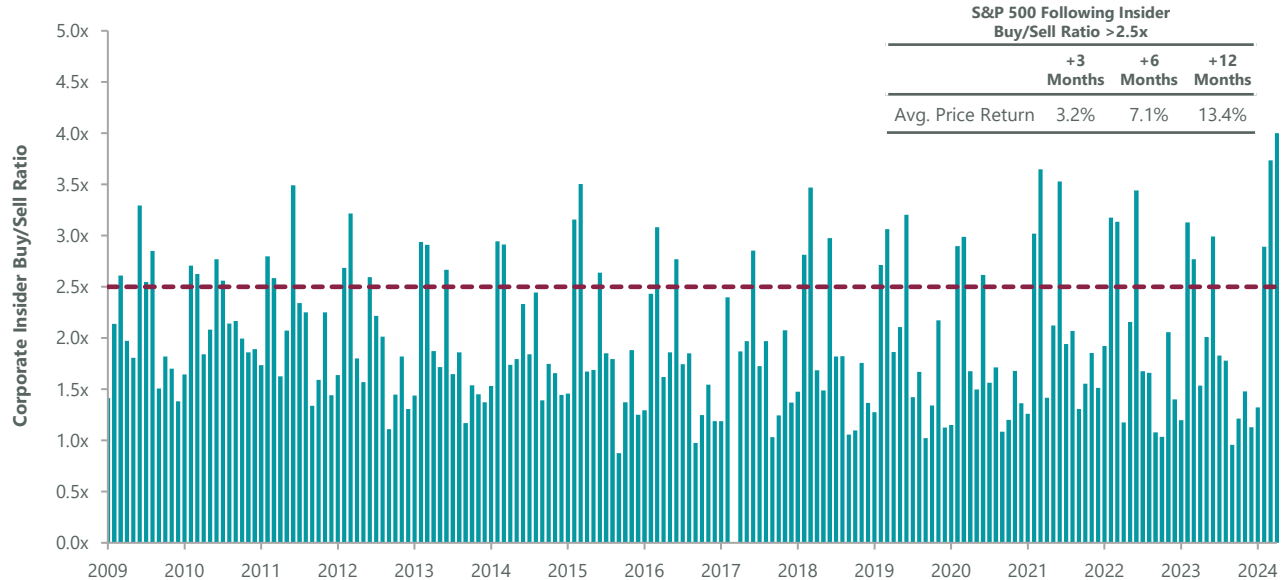
# Investor Confidence: The Contra-Indicator



- **Historically, retail investor sentiment extremes have been a contra-indicator with the market doing the opposite over the subsequent year vs. expectations.**

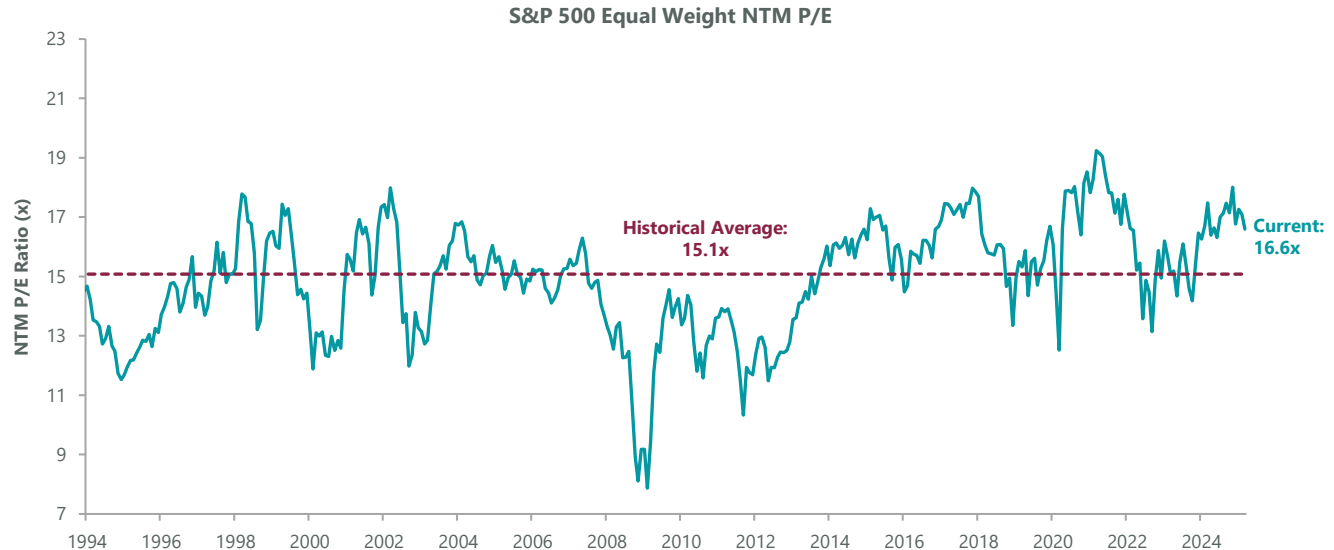
# Insiders Trading

## Corporate Insider Buy/Sell Ratio



- ▶ **Corporate insiders are currently executing 4.0x more purchases than sales, the highest ratio in the post-GFC era.**
- ▶ **The S&P 500 has historically delivered superior returns once the 2.5x threshold has been crossed.**

## Average Stock Valuation Is... Average



- ▶ 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.

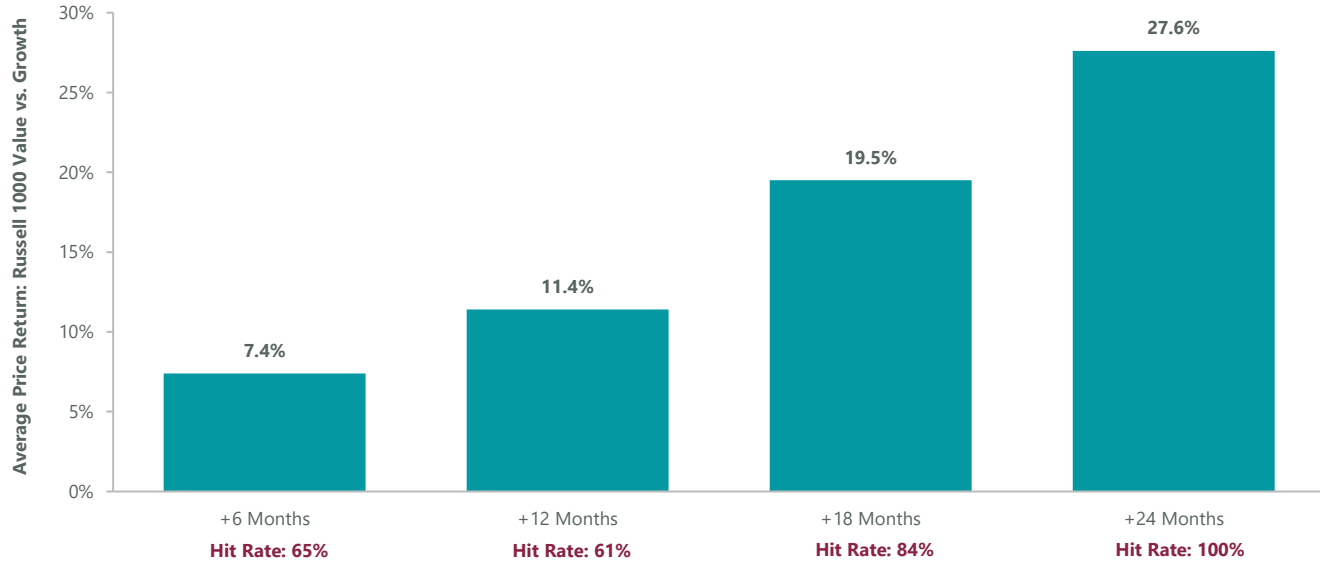
## Market Leadership



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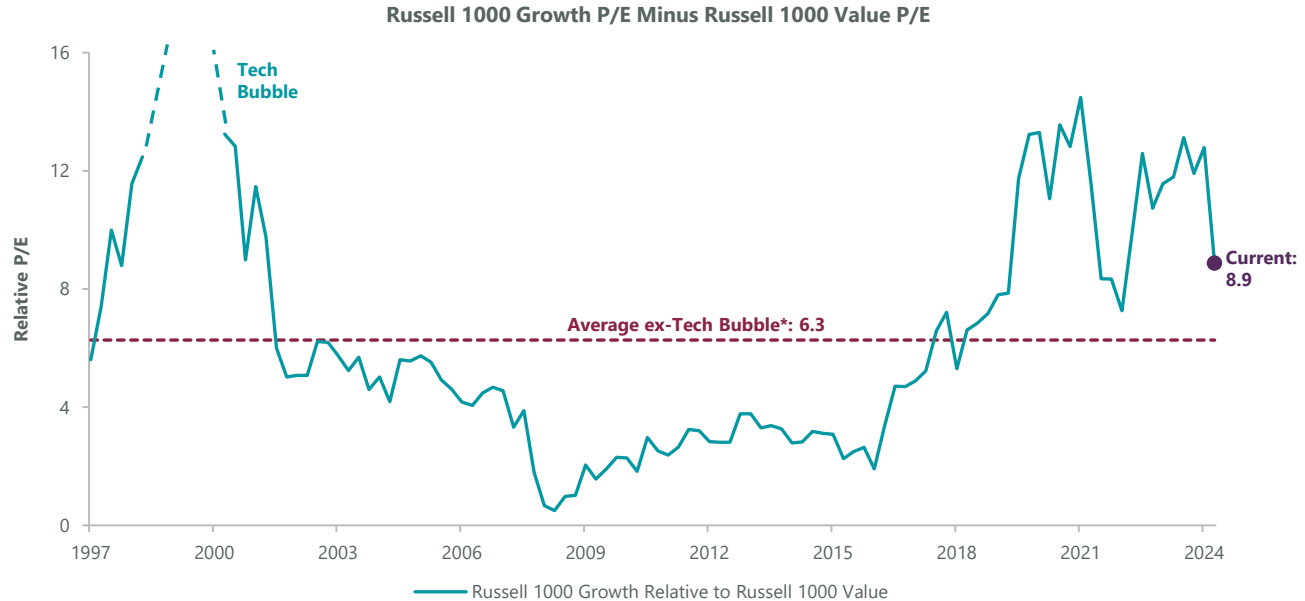
## Value, Down But Not Out

Relative Return of Value vs. Growth Following -25% 12-Month Value Underperformance



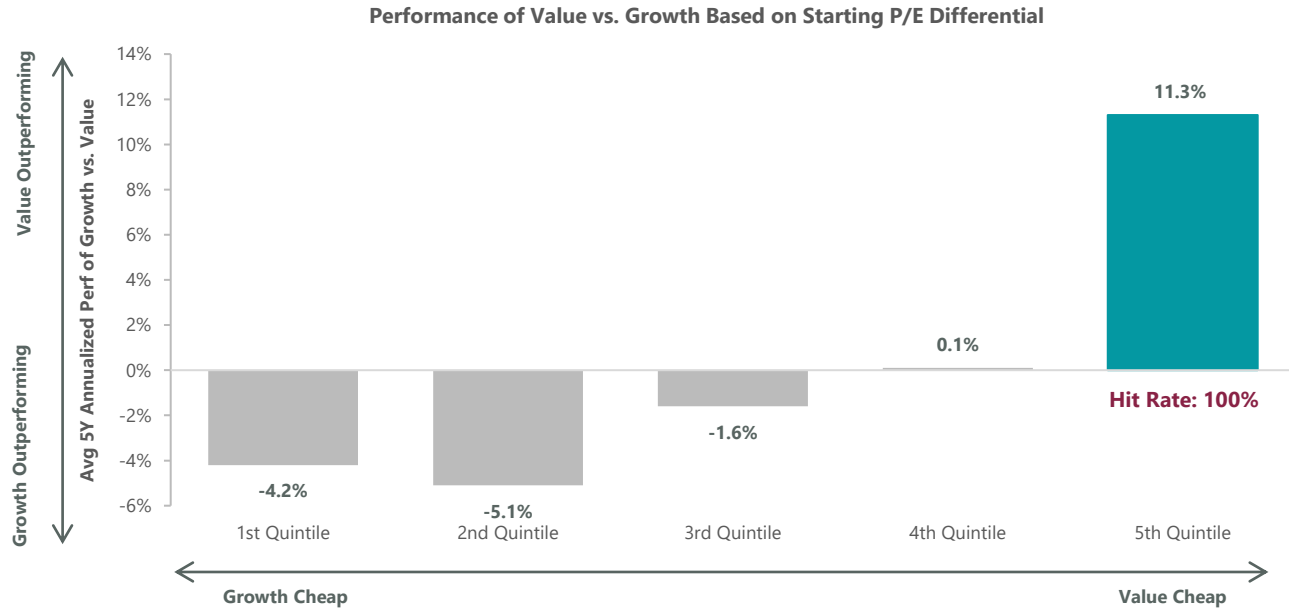
- **Value has historically recovered following periods of sizeable (-25%) underperformance vs. Growth. This threshold was triggered during 1Q25.**

# Value Not Yet Expensive



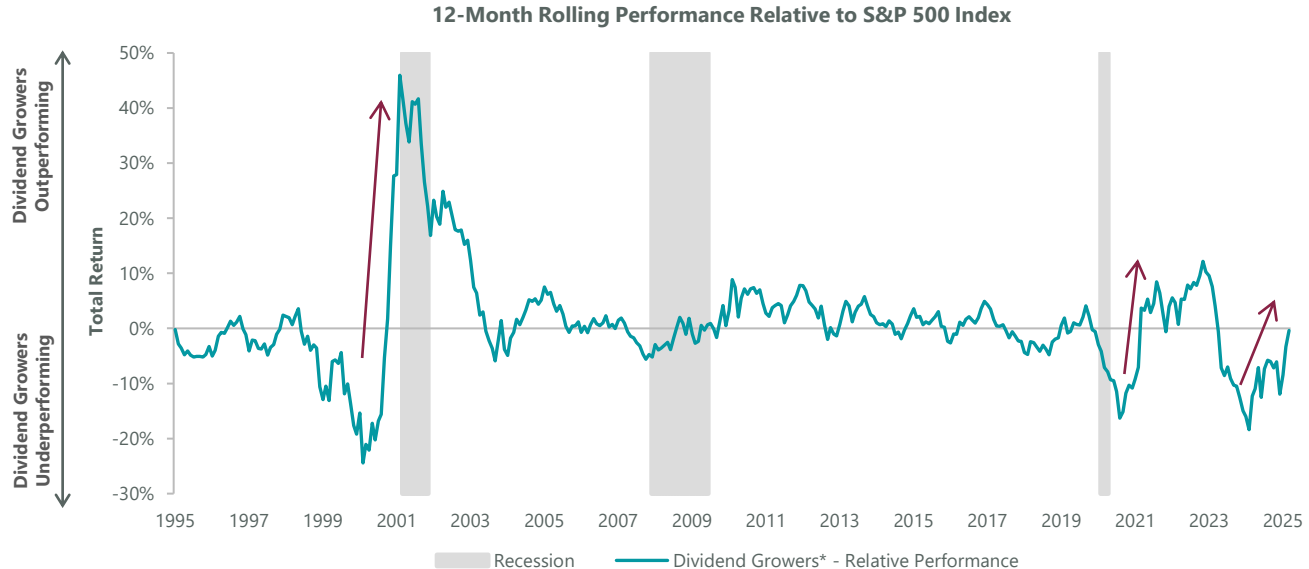
- **Value vs. Growth leadership and valuation have been in a tug-of-war over the past several years, with Value regaining the upper hand to start 2025.**

# The Value Proposition



- **Value has historically outperformed Growth by a healthy margin when the valuation gap (P/E differential) has reached the 5th quintile, as was the case in 1Q25.**

# Dividend Growers Gaining



- ▶ **Over the past year, dividend growers have largely closed the gap following a period of historically large underperformance relative to the S&P 500.**
- ▶ **Following similar periods such as the late 1990s and early 2020s, dividend growers went on to outperform the S&P 500 in subsequent year(s).**



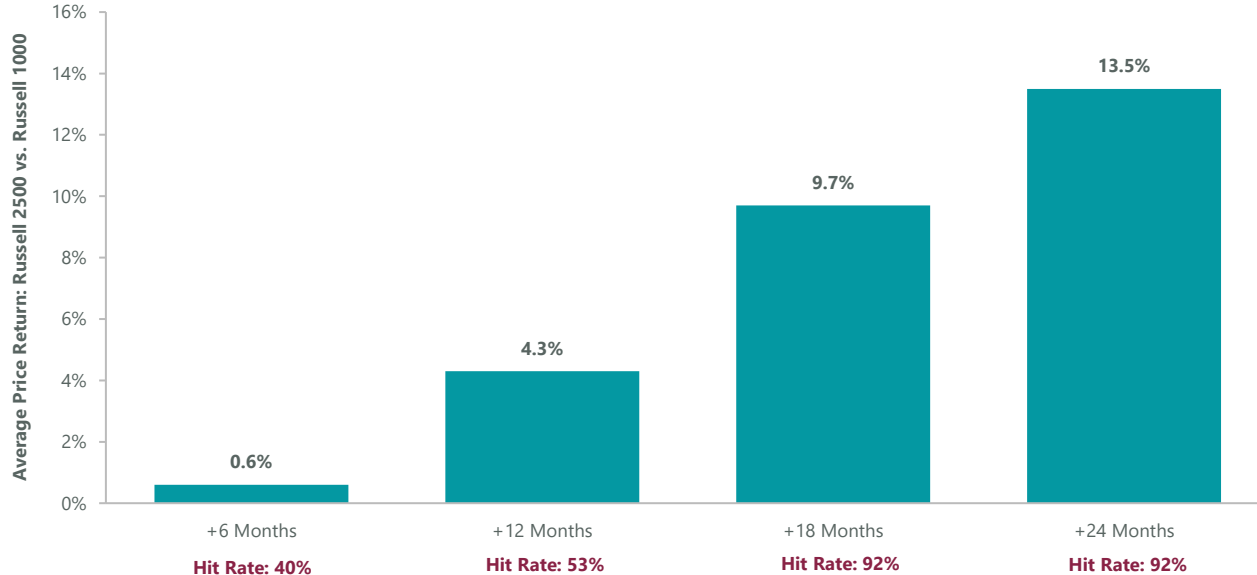
# Typical Market Leadership in Prior Downturns



Note: Average performance during selloffs of 5% or more in the S&P 1500, Hit Rate of outperformance during selloffs of 5% or more in the S&P 1500, 2005-Present. Benchmarks used: Large Value: S&P 500 Value, Large Blend: S&P 500, Large Growth: S&P 500 Growth; Mid Value: S&P 400 Value, Mid Blend: S&P 400, Mid Growth: S&P 400 Growth; Small Value: S&P 600 Value, Small Blend: S&P 600, Small Growth: S&P 600 Growth. Outperformance frequency calculated relative to S&P 1500 index. Data as of March 31, 2025. Sources: S&P, Bloomberg. **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.

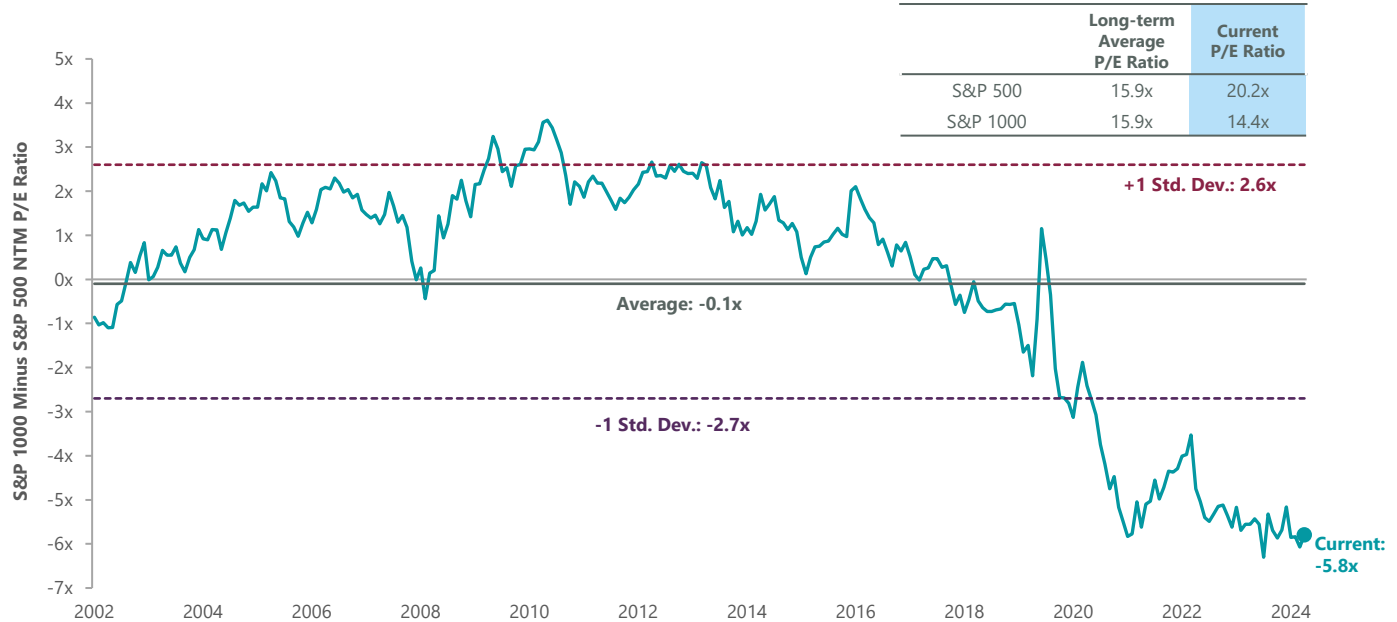
## SMID-Cap Snapback

Relative Return of SMID vs. Large Following -15% 12-Month Underperformance



- **Small- and mid-cap (SMID) stocks have historically recovered following periods of sizeable (-15%) underperformance vs. large-cap stocks. This threshold was triggered during 1Q25.**

## SMID Caps on Sale



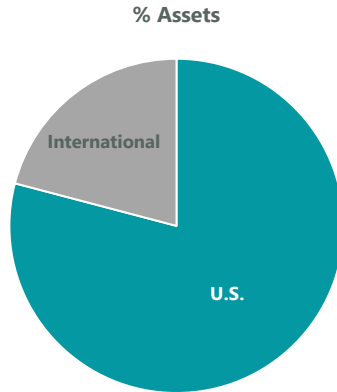
- ▶ **Small- and mid-cap stocks have historically traded at similar multiples to large.**
- ▶ **With large caps leading since the pandemic, the valuation discount for small and mid is near the widest in over two decades.**

## International

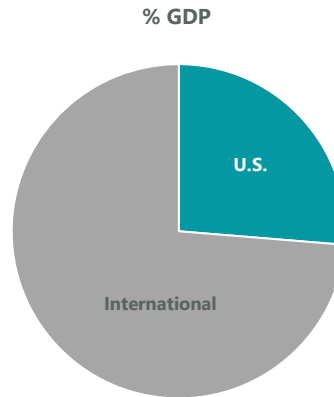


# Home-Country Bias

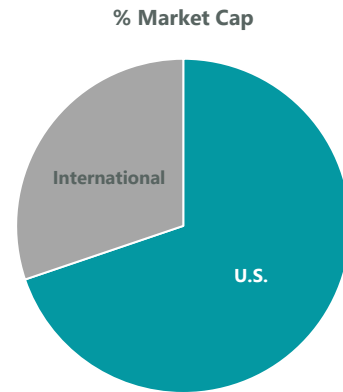
Investors Tend to Over-Allocate to Their Home Country



The U.S. represents 79% of U.S. investor portfolios

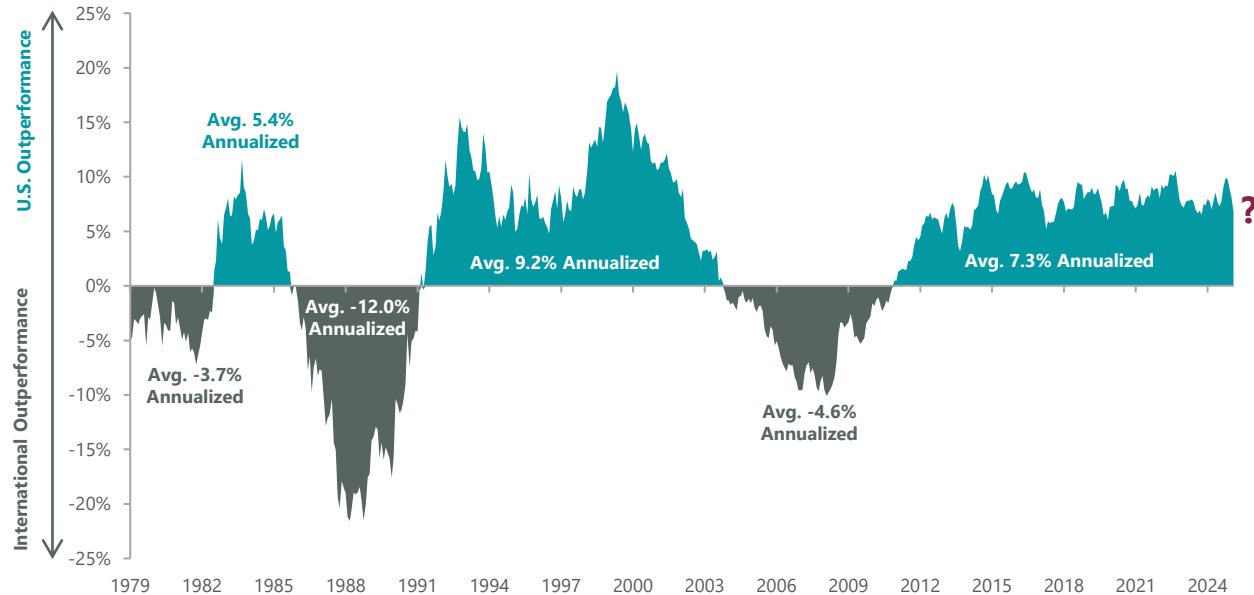


The U.S. represents only 26% of global GDP



The U.S. represents 70% of global Market Cap



















































# Global Leadership Cycles



- ▶ **History shows the geographic leadership tends to persist for longer than investors appreciate.**
- ▶ **The United States has been in the driver's seat since the Global Financial Crisis, although a turning point may be near.**

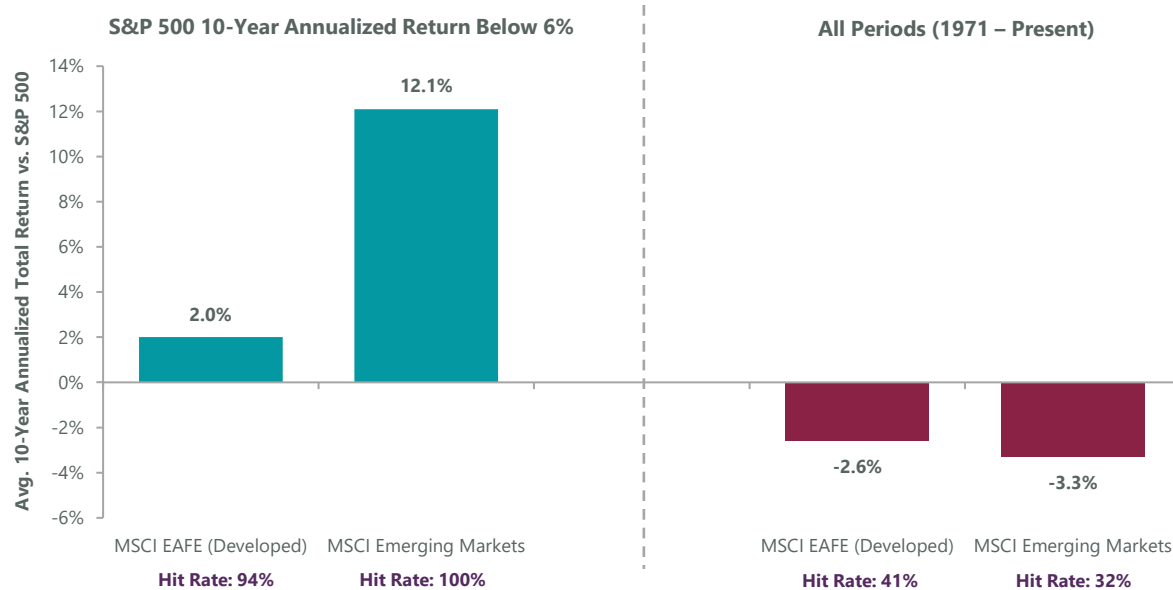
# Leadership Rarely Persists

Top 10 Companies by Market Value at Decade End

1980	1990	2000	2010	2020
 IBM	 NTT	 Microsoft	 Exxon	 Apple
 AT&T	 Bank of Tokyo	 GE	 PetroChina	 Microsoft
 Exxon	 Industrial Bank of Japan	 NTT Docomo	 Apple	 Alphabet
 Standard Oil	 Sumitomi Mitsui	 Cisco	 BHP Billiton	 Amazon
 Schlumberger	 Toyota	 Walmart	 Microsoft	 Facebook
 Shell Oil	 Fuji Bank	 Intel	 ICBC	 Alibaba
 Mobil	 Dai-Ichi Kangyo Bank	 NTT	 Petrobras	 Berkshire Hathaway
 Eastman Kodak	 IBM	 Exxon	 China Construct. Bank	 Tencent
 Atlantic Richfield	 UFJ Bank	 Lucent	 Royal Dutch Shell	 JPMorgan
 GE	 Exxon	 Deutsche Telecom	 Nestle	 Visa

- ▶ **The largest companies in the world have rarely held onto their leadership position for prolonged periods in the past.**
- ▶ **With U.S. companies currently dominating the list, history suggests the potential for a stronger international showing in the coming decade.**

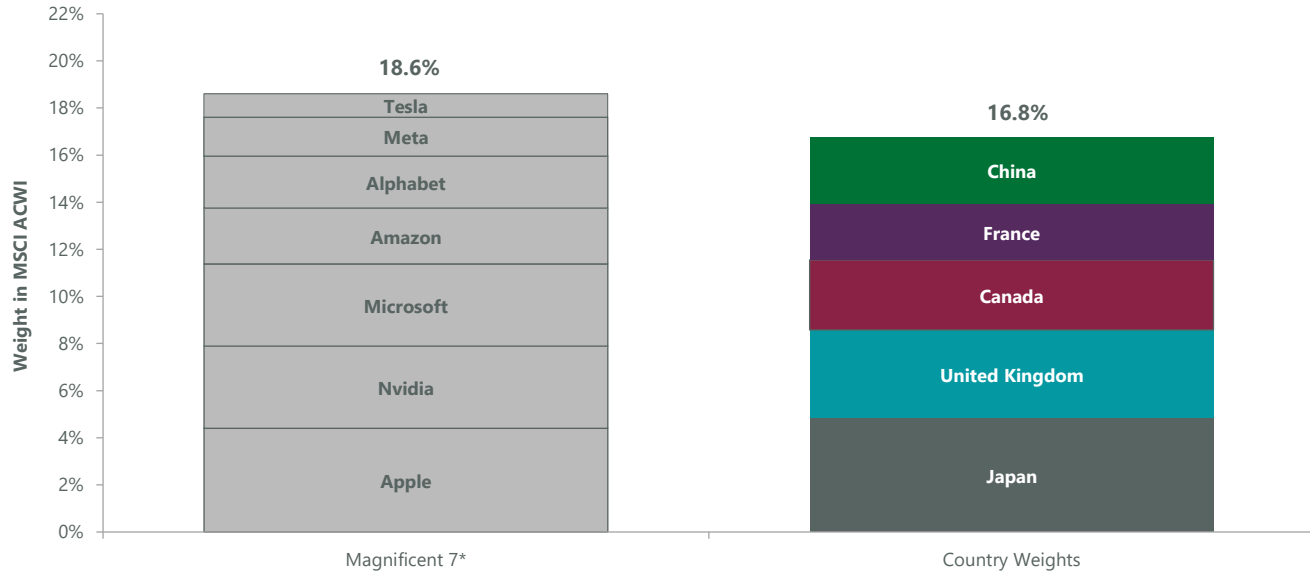
# Diversification Matters



- ▶ **Although the U.S. has outperformed international equities historically, investors have been rewarded for holding non-U.S. stocks during periods of softer U.S. performance.**



## The Mag7 in a Global Context



- **The weight of the Magnificent 7 in the ACWI is greater than the combined weight of Japan, the United Kingdom, Canada, France, and China.**

\*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 March 31, 2025. Sources: FactSet, MSCI. **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. Company references are used for illustrative purposes and should not be construed as an endorsement of sponsorship by Franklin Templeton companies. This information is not intended as an investment recommendation, nor does it constitute investment advice.

## Global Valuations Attractive



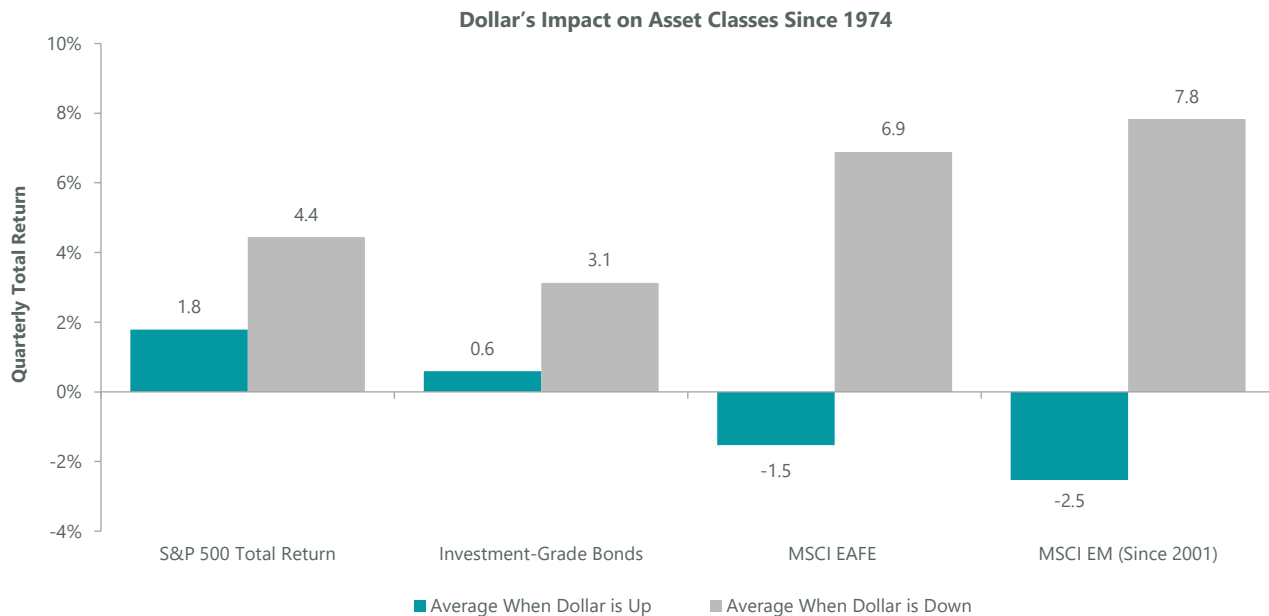
► International equities remain cheap relative to U.S. stocks even after strong 1Q25 outperformance.

# U.S. Dollar Cycle



- ▶ **U.S. dollar cycles have historically lasted ~16 years with a potential inflection point having been reached in 2022.**

## Weaker Dollar Supercharges Non-U.S. Stocks



► **International equities have tended to outperform during periods of dollar weakness.**

## Investor Pitfalls



# Panic Attacks and the S&P 500

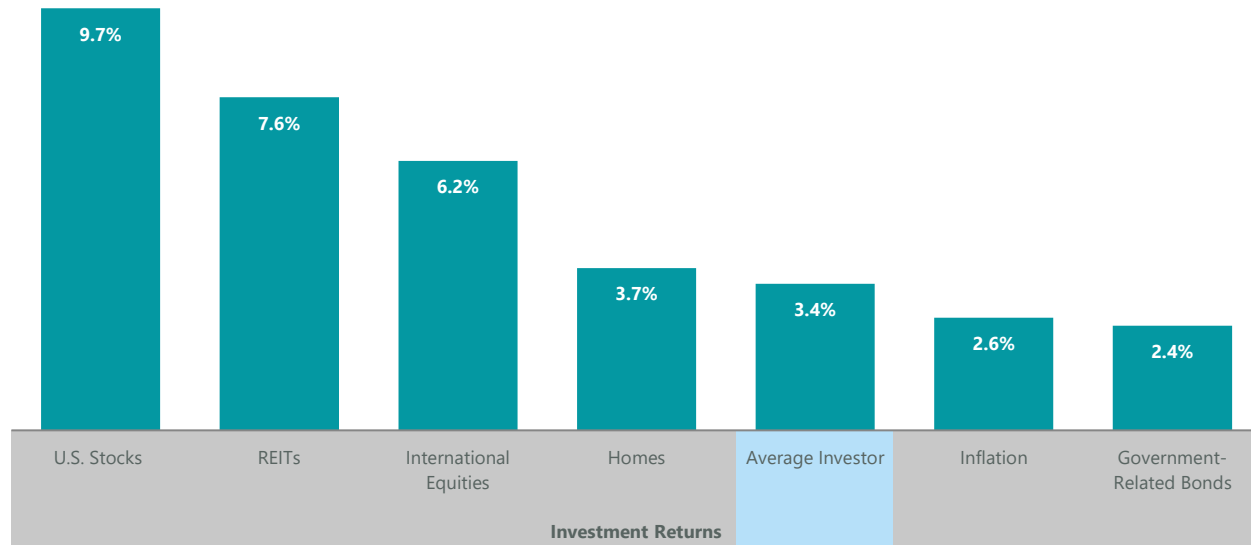
Year	Panic Attacks	S&P 500 Max Drawdown	Cumulative S&P 500 Price Return*
1999	Y2K	-12.1%	378.5%
2000	Tech Bubble Bursts	-17.2%	300.3%
2001	September 11th, 2001 Recession	-29.7%	345.5%
2002	Final Tech Bubble Flush, Corporate Scandals (Worldcom)	-33.8%	412.3%
2003	Iraq War	-14.1%	568.5%
2004	Oil Price Breakout	-8.2%	429.0%
2005	Hurricane Katrina	-7.2%	385.3%
2006	Fed Culminates Hiking Cycle	-7.7%	371.2%
2007	Subprime Cracks Emerge	-10.1%	314.7%
2008	Global Financial Crisis, Bank Failures, Auto Bailouts	-48.8%	300.6%
2009	Global Financial Crisis Culminates	-27.6%	551.2%
2010	European Debt Crisis, Flash Crash	-16.0%	427.5%
2011	S&P Downgrades U.S. Debt, Greek Debt Writedowns	-19.4%	367.7%
2012	Euro Crisis, 2nd Greek Bailout	-9.9%	367.7%
2013	Taper Tantrum	-5.8%	312.4%
2014	Ebola	-7.4%	218.2%
2015	Chinese Slowdown, Yuan Devaluation, Deflation Scare	-12.4%	185.7%
2016	Brexit, Global Negative Rates	-10.5%	187.8%
2017	North Korea Tensions Escalate	-2.8%	162.7%
2018	Trade Wars, Short Vol Unwind	-19.8%	120.0%
2019	Repo Crisis, Yield Curve Inversion	-6.8%	134.6%
2020	COVID-19 Pandemic	-33.9%	82.0%
2021	COVID Variants, Chinese Regulatory Crackdown	-5.2%	56.6%
2022	Russian Invasion of Ukraine, Fed's Hawkish Pivot	-25.4%	23.4%
2023	Regional Bank Crisis, Debt Ceiling Drama	-10.3%	53.2%
2024	Inflation Scare, Sahm Rule Triggered	-8.5%	23.3%

\*Cumulative S&P 500 price return is calculated from day prior to the new year (ex. 1999 looks at Dec. 31, 1998) to present. Data as of Dec. 31, 2024.

Sources: Bloomberg, Federal Reserve, 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.

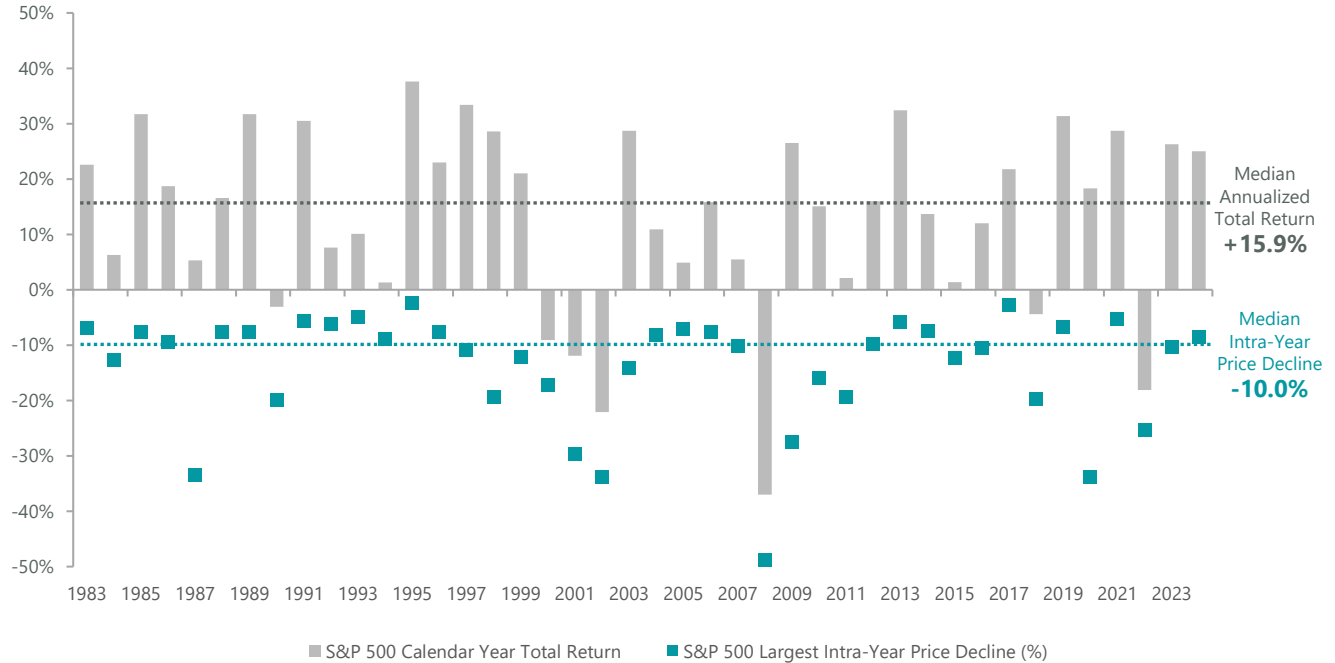
# Don't Fall Victim to Panic Attacks

20 Years Annualized Returns (2004-2023)



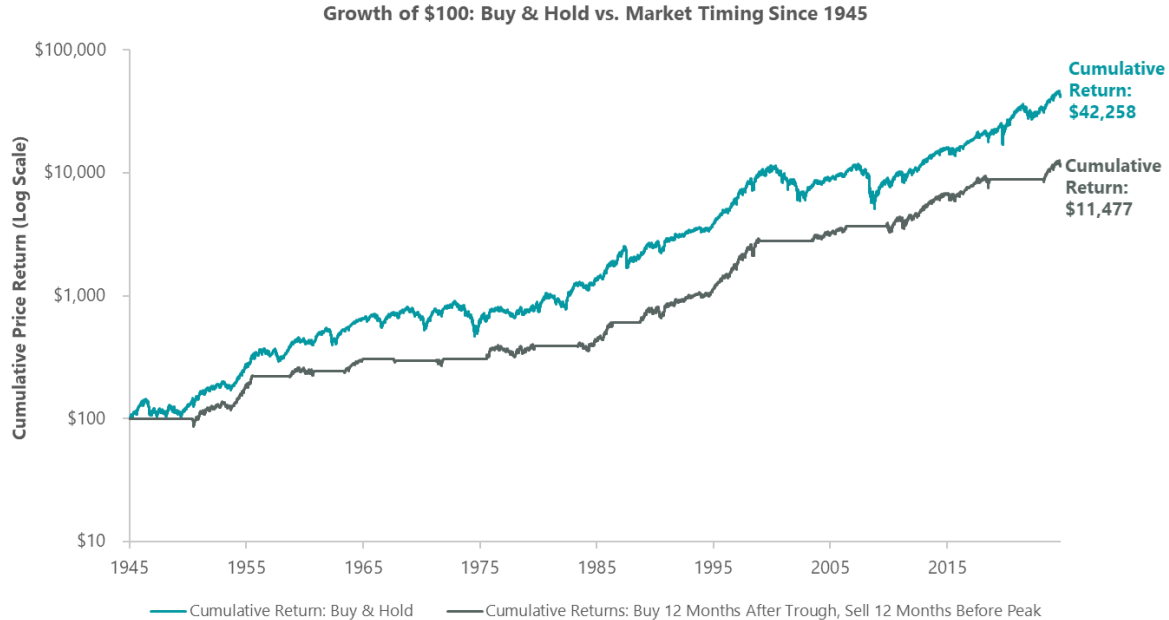
Source: Bloomberg, Dec. 31, 2023. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the NAREIT Equity REIT Index, U.S. Stocks are represented by the S&P 500 Index, International Equities are represented by the MSCI EAFE Index, Government-Related Bonds are represented by the Bloomberg Global Aggregate TR Index, Homes are represented by U.S. existing home sales median price, Inflation is represented by the Consumer Price Index. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance is no guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

# Volatility Not a Financial Loss Unless You Sell



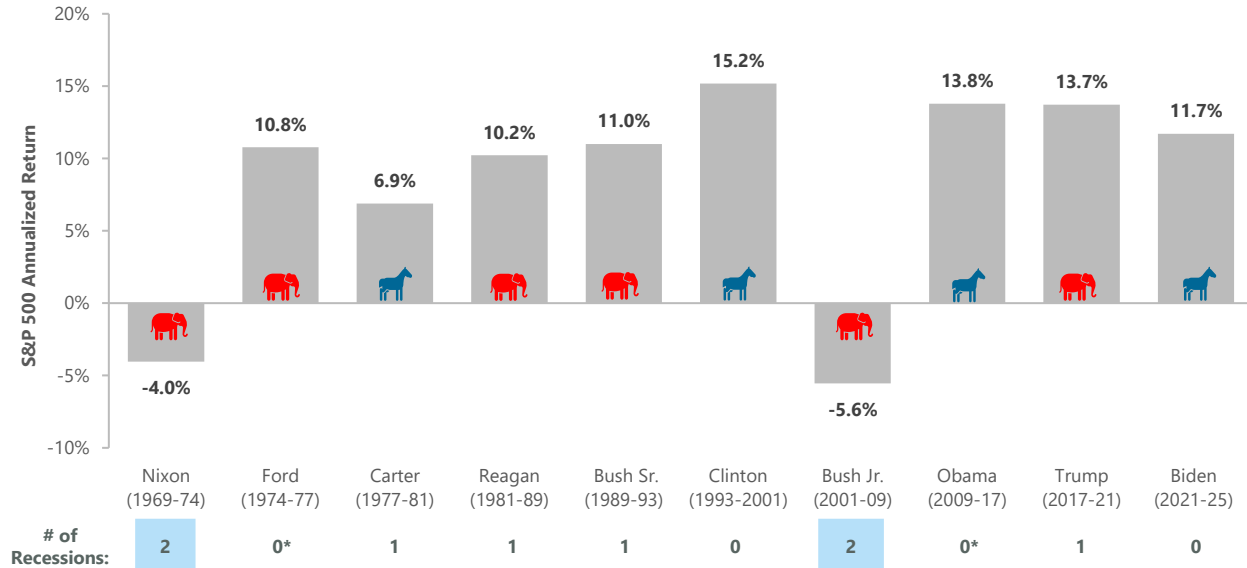


# Can You Time the Market?



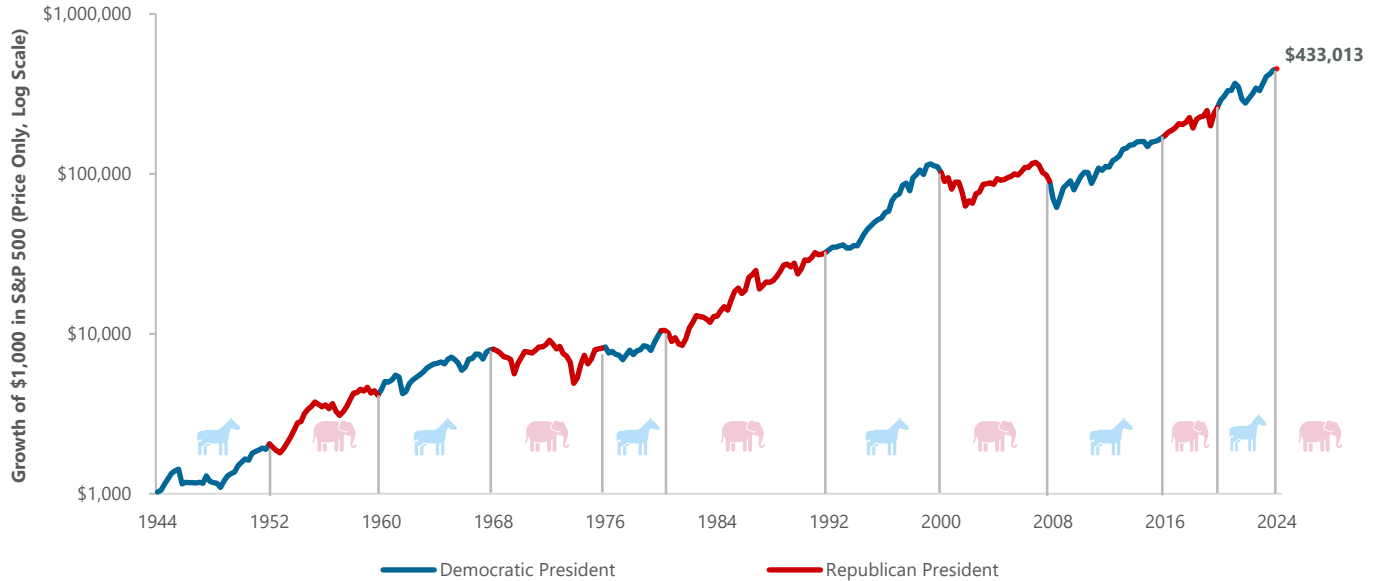
- **Since 1945, an investor that consistently sold 12 months prior to a market peak and bought back 12 months after the trough was worse off overall than a buy-and-hold investor.**

## "It's the Economy..."



- ▶ **Historically, the U.S. equity market has performed well under both Democratic and Republican administrations.**
- ▶ **The only two presidents who witnessed negative stock market performance during their terms had the misfortune of being bookended by recessions.**

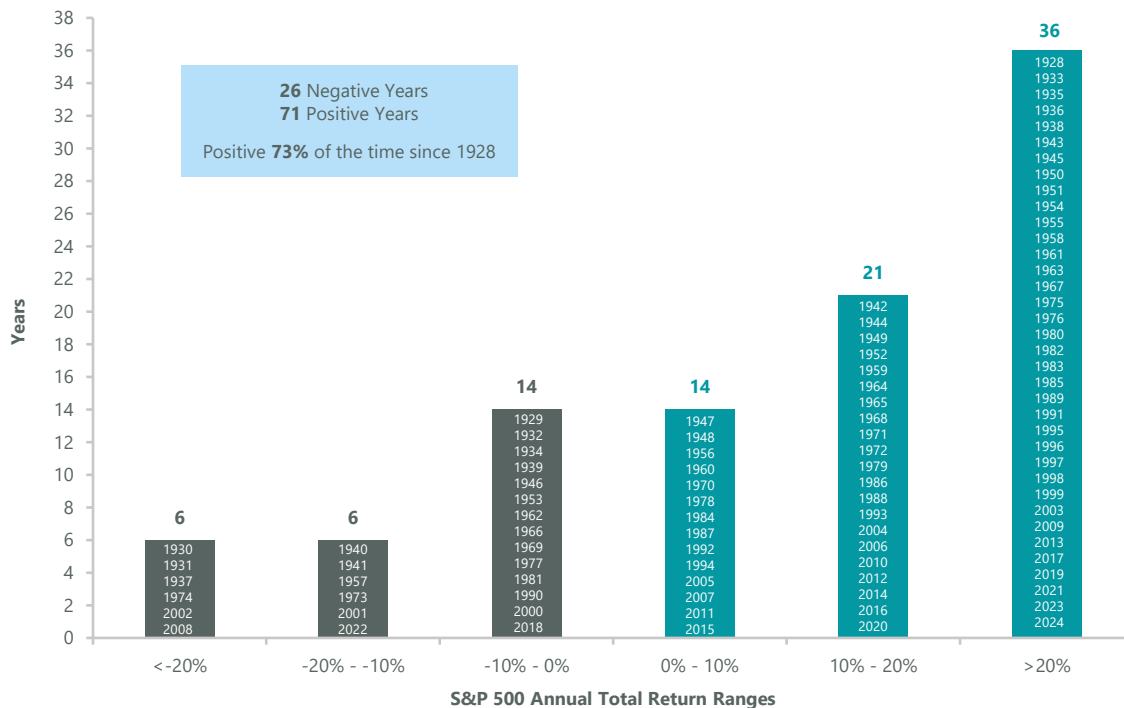
## Don't Mix Politics and Investing



► **Historically, the equity market has moved higher irrespective of which party occupies the Oval Office.**

# Market Annual Returns

Distribution of S&P 500 Total Returns Since 1928



## Glossary of Terms

**BEA:** Bureau of Economic Analysis

**Bloomberg US Aggregate Bond Index:** an unmanaged index of U.S. investment-grade fixed-income securities.

**Bloomberg US Corporate Investment Grade Bond Index:** an unmanaged index of U.S. investment-grade corporate bond securities.

**Bloomberg Global Aggregate Total Return Index:** measure of global investment grade debt from a multitude of local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**CPI (Consumer Price Index):** measure of the average change in U.S. consumer prices over time in a fixed market basket of goods and services as determined by U.S. Bureau of Labor Statistics.

**EPS (Earnings per Share):** the portion of a company's profit allocated to each outstanding share of common stock.

**Fed (Federal Reserve Board):** the U.S. central bank, responsible for policies designed to promote full economic growth, full employment, and price stability.

**GDP:** Gross Domestic Product

**GFC (Great Financial Crisis):** the severe economic and market downturn experienced in 2007-2008.

**Hit Rate:** Metric that measures the percentage of successful outcomes relative to the total number of opportunities.

**Home Sales Median Price:** measures the price at which half of existing homes sold for more and half sold for less.

**MSCI All Country Asia Index:** unmanaged index of large and mid cap stocks across Developed Markets countries and Emerging Markets countries in Asia.

**MSCI EM Index:** unmanaged index of large- and mid-cap stocks in 27 emerging market countries.

**MSCI Europe Index:** unmanaged index of large- and mid-cap stocks across 15 Developed Markets (DM) countries in Europe.

**MSCI EAFE Index:** unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

**MSCI Germany Index:** unmanaged index of large- and mid-cap stocks across the German market.

**MSCI Japan Index:** unmanaged index of large- and mid-cap stocks across the Japanese market.

**MSCI UK Index:** unmanaged index of large- and mid-cap stocks across the UK market.

**MSCI USA Index:** unmanaged index of US large- and mid-cap equity securities.

**NAREIT All-Equity REITS Total Return Index:** free-float-adjusted market capitalization weighted index that includes all tax qualified REITS listed in the NYSE, AMEX and NASDAQ National Markets.

**NFIB (National Federation of Independent Business):** a U.S. small business advocacy association, representing over 350,000 small and independent business owners.

**NFIB Small Business Optimism Index:** measure of small business sentiment produced by the National Federation of Independent Business based on its monthly survey of small business owners.

**P/E Ratio:** Price/Earnings ratio

**PMI:** Purchasing Manager's Index

## Glossary of Terms (continued)

**Russell 1000 Index:** a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the U.S. equity universe.

**Russell 1000 Growth Index:** unmanaged index of large-cap stocks chosen for their growth orientation.

**Russell 1000 Value Index:** unmanaged index of large-cap stocks chosen for their value orientation.

**Russell 2000 Index:** unmanaged index of small-cap stocks.

**Russell 2000 Growth Index:** unmanaged index of small-cap stocks chosen for their growth orientation.

**Russell 2000 Value Index:** unmanaged index of small-cap stocks chosen for their value orientation.

**Russell Mid Cap Index:** unmanaged index consisting of the 800 smallest companies in the Russell 1000 Index.

**Russell Mid Cap Growth Index:** unmanaged index of mid-capitalization U.S. equities that exhibit growth characteristics.

**Russell Mid Cap Value Index:** unmanaged index of mid-capitalization U.S. equities that exhibit value characteristics.

**Sahm Rule:** The Sahm Rule identifies signals related to the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months.

**S&P MidCap 400 Index:** unmanaged index of 400 US mid-cap stocks.

**S&P 400 Growth Index:** unmanaged index of mid-cap stocks having higher price-to-book ratios relative to the S&P 400 MidCap as a whole.

**S&P 400 Value Index:** unmanaged index of mid-cap stocks having lower price-to-book ratios relative to the S&P 400 MidCap as a whole.

**S&P 500 Growth Index:** unmanaged index of large-cap stocks selected based on sales growth, the ratio of earnings change to price and momentum.

**S&P 500 Value Index:** unmanaged index of large-cap stocks selected based on the ratios of book value, earnings, and sales to price.

**S&P 600 Index:** unmanaged index of 600 US small-cap stocks

**S&P 600 Growth Index:** unmanaged index of US small-cap growth stocks, selected based on sales growth, the ratio of earnings change to price, and momentum.

**S&P 600 Value Index:** unmanaged index of US small-cap value stocks, selected based on ratios of book value, earnings, and sales to price.

**S&P 500 Index:** Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.



**Yield Curve:** Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

**YoY:** Year Over Year

**U.S. Treasuries:** Direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

# Biographies

## The Anatomy of a Recession

Name and Position	Industry Experience	ClearBridge Tenure	Education, Experience and Professional Designations
 <b>Josh Jamner CFA</b> Director, Senior Investment Strategy Analyst	16 years	<ul style="list-style-type: none"> <li>• Joined ClearBridge in 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the CFA Institute</li> <li>• RBC Capital Markets - Assistant Vice President, Associate Strategist - U.S. Equity</li> <li>• Bessemer Trust - Assistant Vice President, Client Portfolio Analyst</li> <li>• BA in Government from Colby College</li> </ul>
 <b>Jeffrey Schulze CFA</b> Managing Director, Head of Economic and Market Strategy	20 years	<ul style="list-style-type: none"> <li>• Joined ClearBridge in 2014</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the CFA Institute</li> <li>• Lord Abbett &amp; Co., LLC – Portfolio Specialist</li> <li>• BS in Finance from Rutgers University</li> </ul>

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