

Anatomy of a Recession: 2Q'26 outlook

As of May 1, 2026

US economic and market summary¹

- The drag from higher oil prices should negate some but not all the fiscal stimulus from the OBBB in 2026.
- The AI capex boom should continue with spending well within ranges seen during prior technological innovation cycles.
- Improving earnings expectations and lower valuations provide an attractive backdrop for long-term investors.
- Market leadership has broadened, a trend we believe will continue to benefit value, small-cap and international equities.

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 | | | |
|-------------------|-----------------------|----------------------|-------------------|--------------------|---|
| | | April 30, 2026 | December 31, 2025 | September 30, 2025 | |
| Consumer | Housing Permits | ↑ | ● | ● | ↑ Expansion ● Caution × Recession |
| | Job Sentiment | × | × | × | |
| | Jobless Claims | ↑ | ↑ | ↑ | |
| | Retail Sales | ↑ | ↑ | ↑ | |
| | Wage Growth | ↑ | ↑ | ↑ | |
| Business Activity | Commodities | ↑ | ↑ | ↑ | |
| | ISM New Orders | ↑ | × | ● | |
| | Profit Margins | ● | ● | ● | |
| | Truck Shipments | ↑ | ↑ | ↑ | |
| | Credit Spreads | ↑ | ↑ | ↑ | |
| Financial | Money Supply | ↑ | ↑ | ↑ | |
| | Yield Curve | ↑ | ↑ | ● | |
| | Overall Signal | ↑ | ↑ | ↑ | |

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.

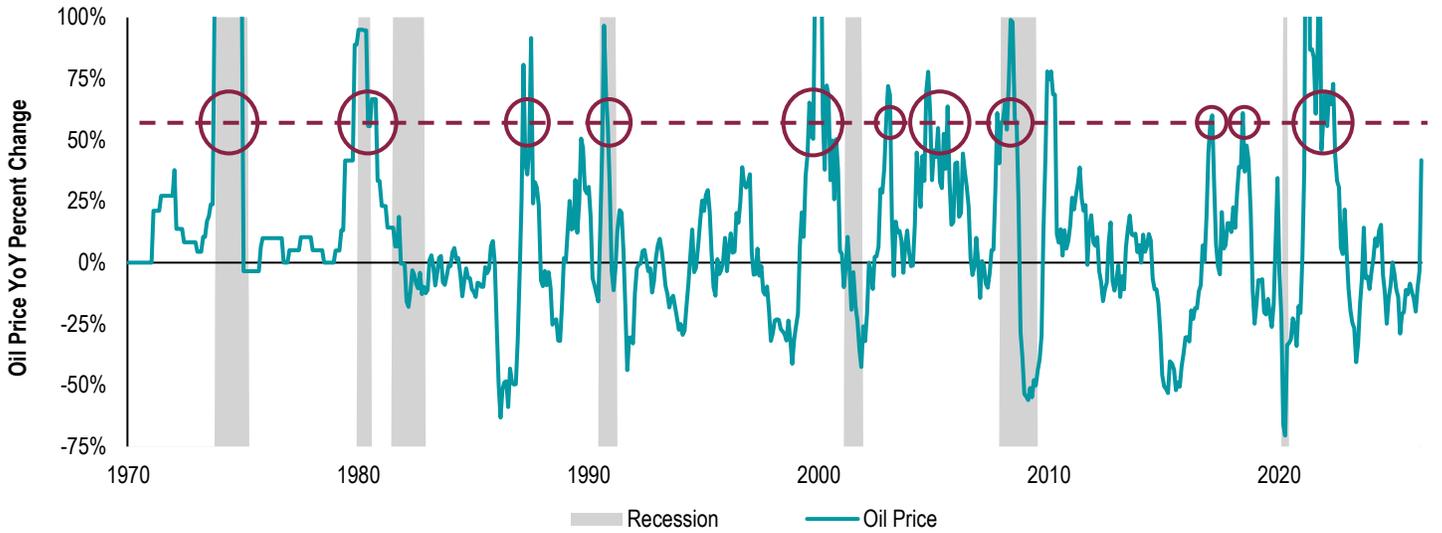
1. As of March 31, 2026. All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the author and may differ from other portfolio managers or the firm as a whole and are not intended to be a forecast of future 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 April 30, 2026. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME, FactSet and Macrobond. 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.

Not a Deposit | Not FDIC Insured | May Lose Value | Not Bank Guaranteed

Not Insured By Any Federal Government Agency

Dashboard determines economy's fate³



| | 1973 | 1979 | 1987 | 1990 | 1999 | 2004 | 2005 | 2007 | 2017 | 2018 | 2022 | Current |
|----------------|------|------|------|------|------|------|------|------|------|------|------|---------|
| Overall Signal | ✗ | ✗ | ↑ | ✗ | ↑ | ↑ | ↑ | ✗ | ↑ | ↑ | ↑ | ↑ |
| Recession | Yes | Yes | No | Yes | Yes | No | No | Yes | No | No | No | ??? |

- The ClearBridge Recession Dashboard has played a key role in assessing whether oil price spikes of 60% year-over-year or greater have triggered recessions.
- Given the current strength of the ClearBridge US Recession Risk Dashboard, we believe the chances of an oil shock-induced recession are low should we hit the 60% oil price spike threshold in the coming months.

The geopolitical discount

S&P 500 NTM P/E Ratio (x)⁴



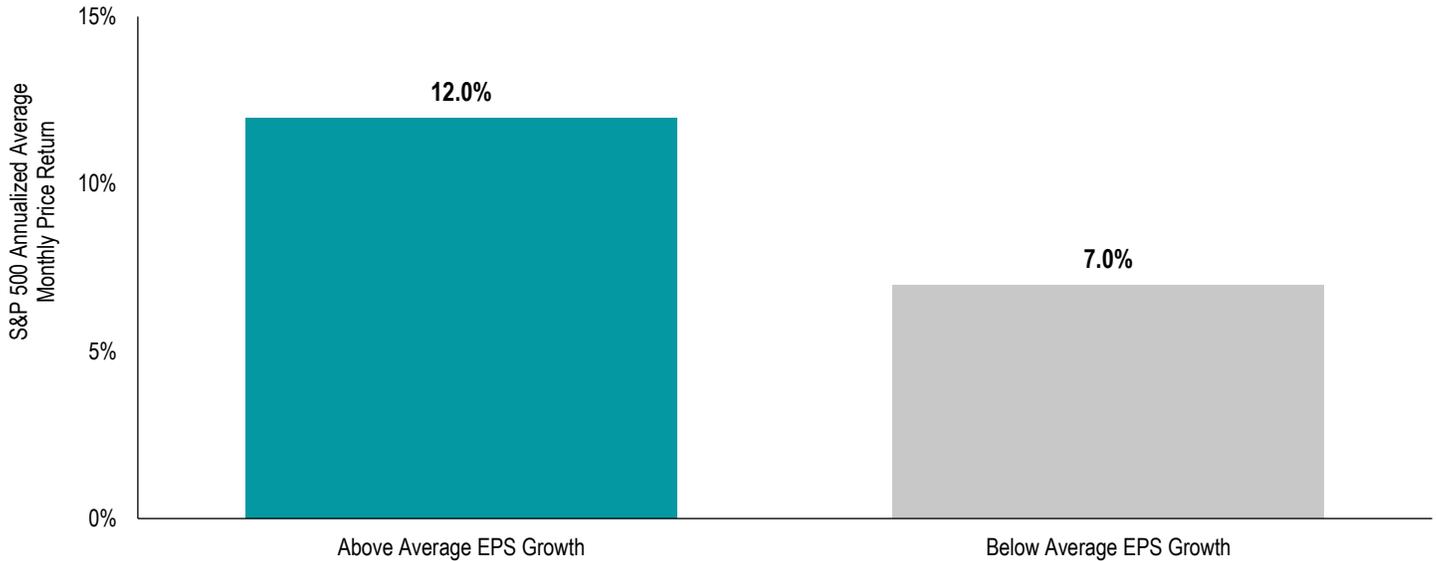
- Recent events in the Middle East have led to a drop below 20x in the S&P 500's forward P/E, easing one headwind (historically elevated valuations) to US equities.

3. Note: Oil price is Arabian Gulf Arab Light prior to April 1993, and West Texas Intermediate (WTI) from April 1993–present. Oil “spikes” occurring in the aftermath of recessions are excluded. Data as of March 31, 2026. Oil price sources: Bloomberg, Federal Reserve Bank of St. Louis, Economic Research Division, NYMEX. Recession Dashboard Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, S&P and NBER. The ClearBridge Recession 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.

4. Data as of March 31, 2026. Sources: S&P and FactSet. NTM=next twelve months. P/E=price/earnings.

Strong earnings, strong gains

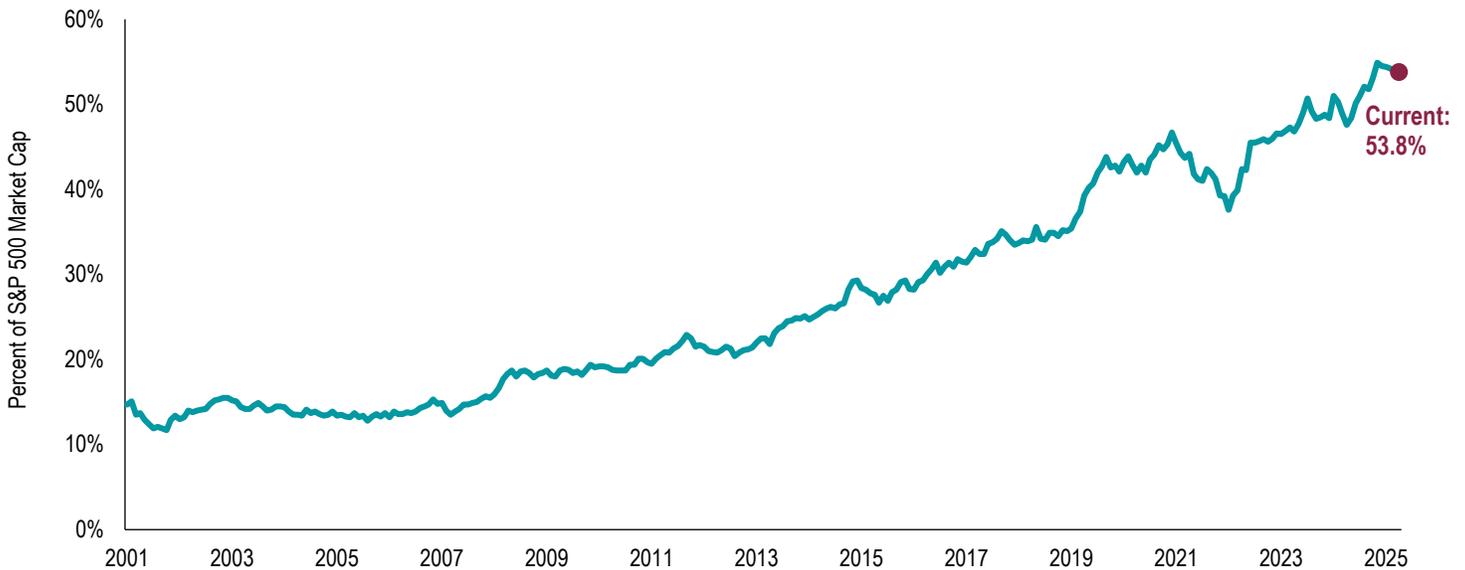
S&P 500 Price Return in Above- and Below-Average EPS Growth Regimes⁵



- Benchmark returns have historically been stronger when earnings-per-share (EPS) growth is above average (9%).
- Sell-side consensus currently expects nearly 17% EPS growth in 2026, suggesting a healthy market backdrop for the coming year.

The S&P 500 has become more growth-oriented

Percent of S&P 500 Market Cap that Overlaps with QQQ⁶



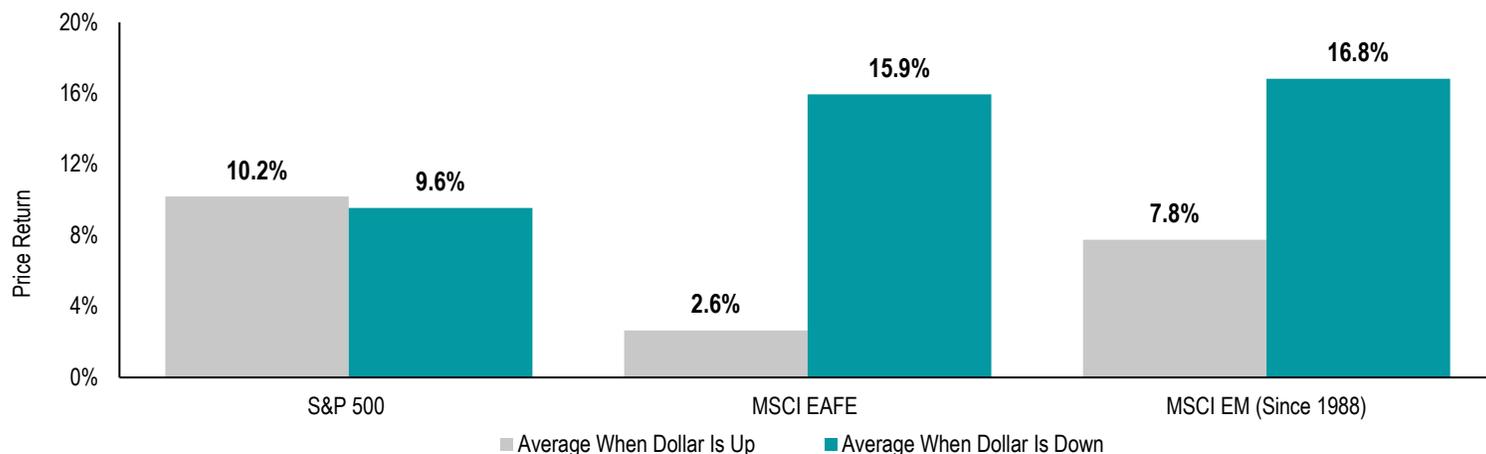
- Since the global financial crisis, the composition of the S&P 500 index has increasingly mirrored the more growth- and technology-oriented QQQ.
- Many investors may be overexposed to growth and technology due to this dynamic with the current overlap breaching 50% in 2025.

5. Note: Annualized average monthly returns based on actual 12-month EPS growth. The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Data as of March 31, 2026. Sources: FactSet, S&P. There is no assurance that any estimate, forecast or projection will be realized.

6. Note: QQQ is an ETF that tracks the Nasdaq 100 index. Data as of March 31, 2026. Sources: S&P and FactSet. Market cap is calculated using the sum of constituents.

Weaker dollar has supercharged non-US stocks

US Dollar Impact on Annual Equity Performance Since 1974⁷



- Non-US equities have tended to outperform during periods of dollar weakness.

Bond leadership following the cut⁸

| Initial Rate Cut | Economic Outcome | Subsequent 18-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 | 22.2% | 17.7% | 11.4% | 8.1% | 4.7% | — |
| June 1981 | Recession | 23.1% | 31.6% | 34.6% | 37.6% | 42.6% | — |
| Oct. 1984 | Soft Landing | 13.1% | 25.1% | 41.4% | 41.7% | 45.3% | 43.0% |
| June 1989 | Recession | 13.1% | 15.3% | 15.7% | 15.4% | 13.1% | -12.5% |
| July 1995 | Soft Landing | 8.4% | 9.4% | 8.7% | 9.6% | 10.2% | 18.1% |
| Sept. 1998 | Soft Landing | 7.5% | 5.3% | 1.0% | 1.7% | 0.5% | 3.8% |
| Jan. 2001 | Recession | 5.3% | 11.3% | 10.0% | 11.9% | 11.9% | -0.1% |
| Sept. 2007 | Recession | 3.4% | 7.5% | 14.3% | 7.1% | -6.1% | -24.1% |
| July 2019 | Recession | 1.5% | 4.7% | 9.0% | 9.3% | 12.8% | 11.2% |
| Sept. 2024 | Soft Landing | 6.3% | 5.8% | 2.7% | 3.8% | 3.8% | 9.3% |
| Sept. 2025 | ? | ? | ? | ? | ? | ? | ? |
| Recessionary Average | | 11.4% | 14.7% | 15.8% | 14.9% | 13.2% | -6.4% |
| Soft Landing Average | | 8.8% | 11.4% | 13.5% | 14.2% | 14.9% | 18.5% |

- Following historical soft-landing cutting cycles, investors have generally been rewarded by stepping out of cash and taking on credit risk.

7. Data as of December 31, 2025. Sources: FactSet, S&P and MSCI.

8. Note: Rate-cut cycles of at least 75 bps. Short-term bonds represented by the Bloomberg 1-3 Yr US Gov/Credit Total Return Index, US Treasury bonds represented by the Bloomberg US Treasury Total Return Unhedged USD, core/core plus bonds represented by the Bloomberg US Agg Total Return Value Unhedged Index, Investment-grade corporate bonds represented by the Bloomberg US Corporate Total Return Value Unhedged Index, High-yield bonds represented by the Bloomberg US Corporate High-Yield Total Return Index Value Unhedged USD Index. Sources: FactSet, Bloomberg, ICE, NBER.

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