

Anatomy of a Recession: Economic and Market Outlook

Third Quarter 2025

As of August 1

US Economic Outlook¹

- Tariff uncertainty has created timing distortions in economic data that increase the risk of an “air pocket” in economic activity in the second half of 2025.
- Fiscal and monetary support along with better visibility on trade should provide the foundation for the economy to re-accelerate into 2026.
- The overall signal from the ClearBridge Recession Risk Dashboard remains in green “expansion” territory.

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			
		July 2025	June 2025	March 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 July 31, 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.

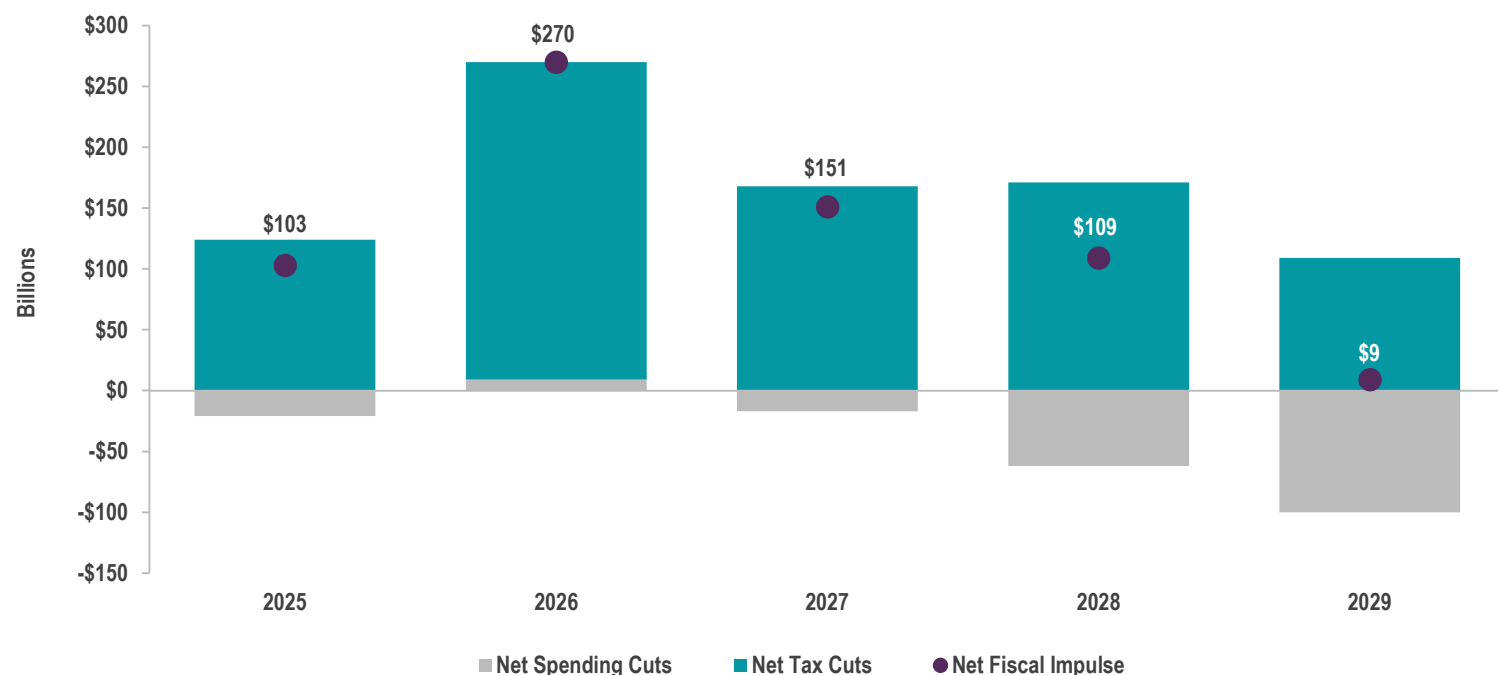
2. Data as of July 31, 2025. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME, FactSet and Macrobond. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would 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

Tax Tailwind

One Big Beautiful Bill (BBB) net fiscal impulse³



- The BBB is expected to deliver a positive fiscal boost above and beyond the extension of the 2017 TCJA tax cuts.
- The peak impulse of approximately 1% of gross domestic product is estimated to be felt in 2026 before gradually fading over the following three years.

Ten Largest 50-Day Rallies Since 1950: S&P 500 Index Return⁴

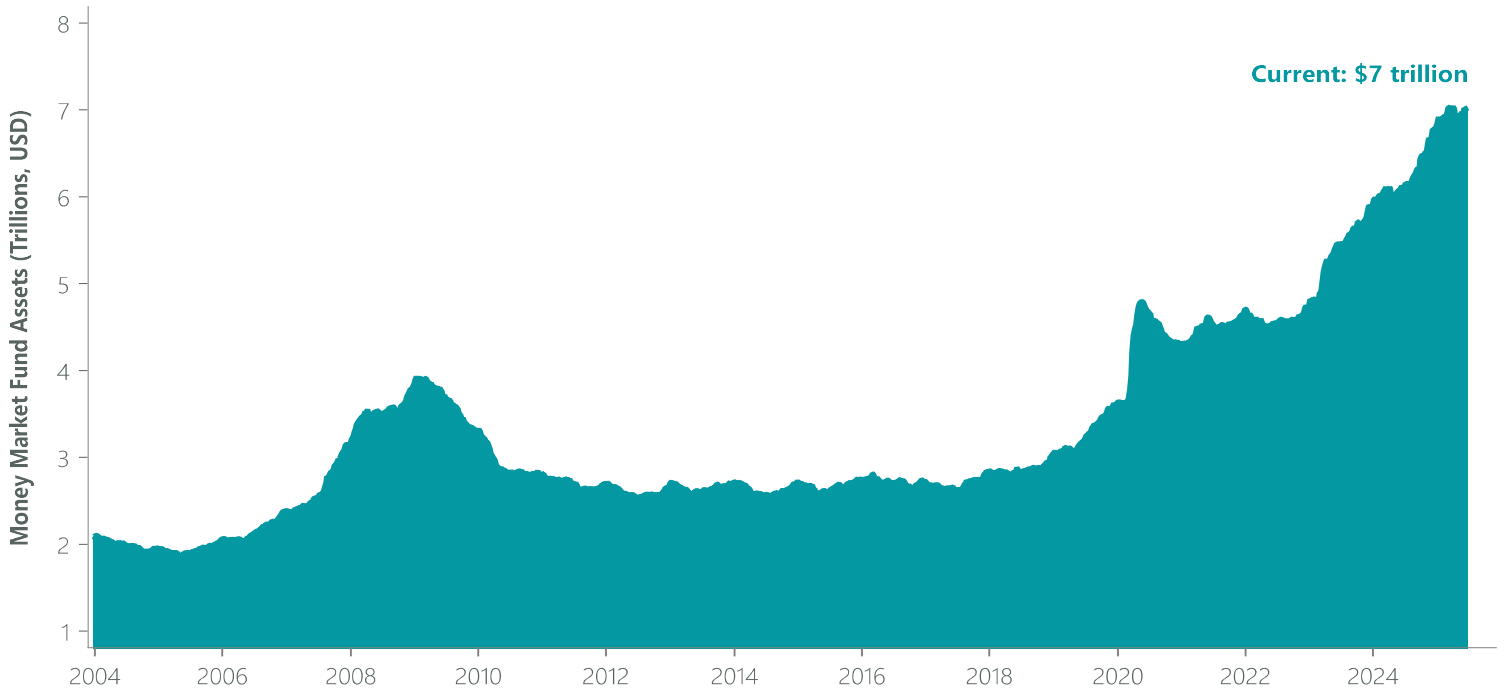
End of 50-Day Rally	50-Day % Change	3 Months	6 Months	12 Months
June 3, 2020	39.6%	10.6%	17.4%	34.3%
Oct. 22, 1982	35.5%	3.6%	15.6%	19.5%
May 19, 2009	34.2%	9.7%	20.6%	22.8%
March 6, 1975	26.9%	10.5%	2.4%	18.4%
Dec. 18, 1998	23.8%	10.8%	13.0%	19.6%
Sept. 16, 2009	21.3%	3.8%	8.5%	5.2%
June 24, 1997	20.5%	5.4%	4.1%	26.4%
March 26, 1991	20.4%	-1.3%	2.7%	8.4%
Jan. 7, 1963	19.9%	6.5%	9.5%	18.0%
March 13, 1987	19.7%	4.0%	11.1%	-8.6%
Average		6.4%	10.5%	16.4%
June 20, 2025	19.8%	?	?	?

- Equities have historically continued to do well following the strongest market runs.

3. Data as of June 30, 2025. Based on CBO Scoring of Senate One Big Beautiful Bill Act on June 27th. Source: Wolfe Research.

4. Sources: S&P, FactSet. Distinct 50-Day rallies.

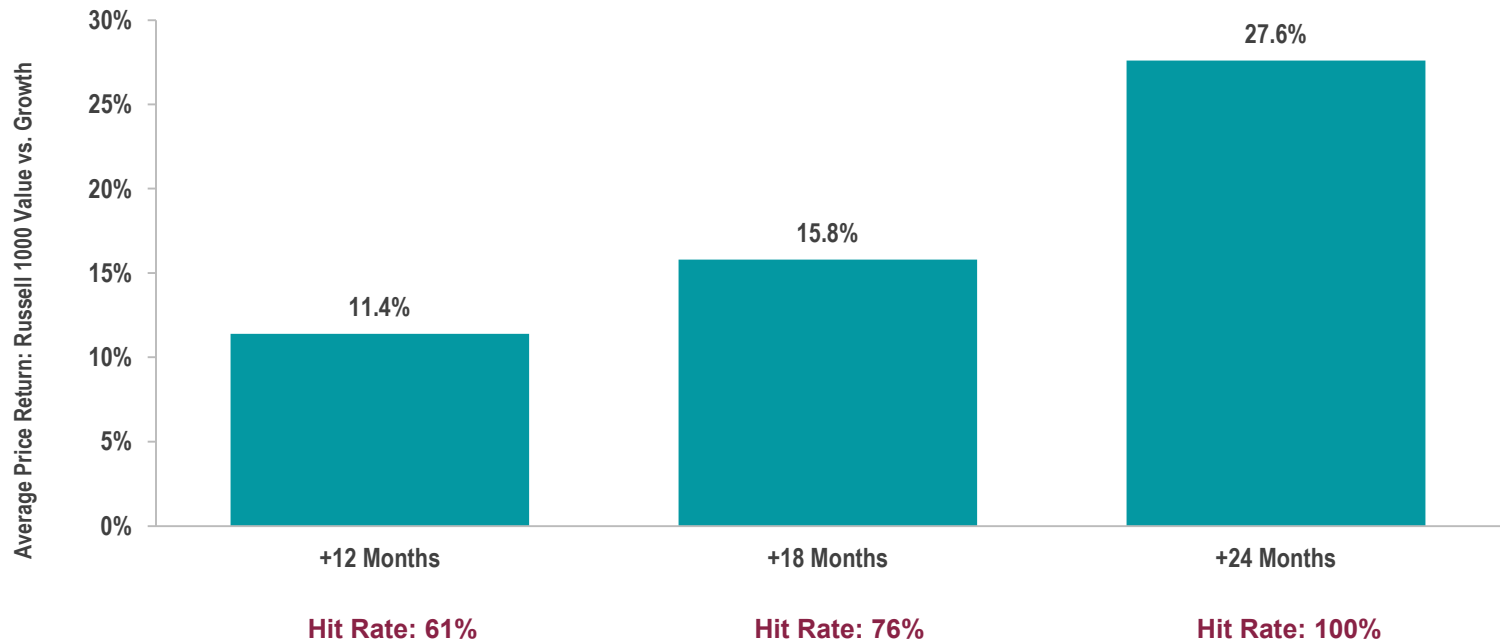
Cash on the Sidelines⁵



- Cash holdings in money market funds have increased dramatically over the past five years.
- Investors may reconsider their asset allocations should the Fed decide to further lower interest rates.

Value, Down But Not Out

Relative return of value vs. growth following -25% 12-month value underperformance⁶

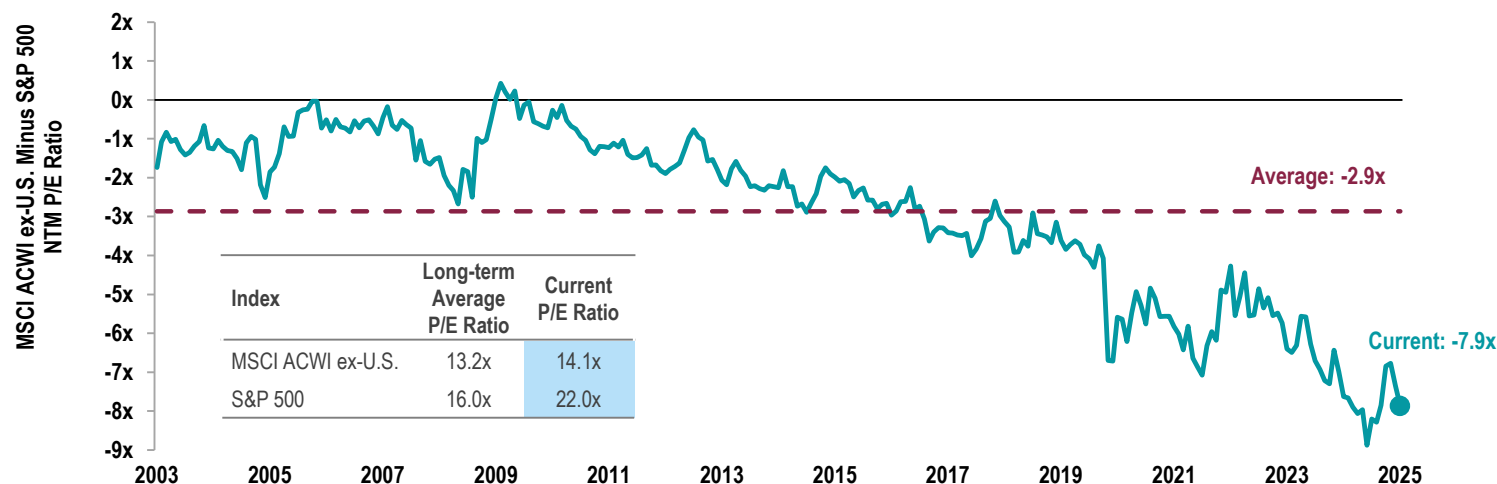


- Value has historically recovered following periods of sizeable (-25%) underperformance vs. growth. This threshold was triggered during 1Q25.

5. Data last updated on June 26, 2025, latest available as of June 30, 2025. Sources: Investment Company Institute (ICI), Macrobond.

6. Russell 1000 Growth, Russell 1000 Value, reflective of period from 1979 – present, as of June 30, 2025. Sources: FactSet, Russell.

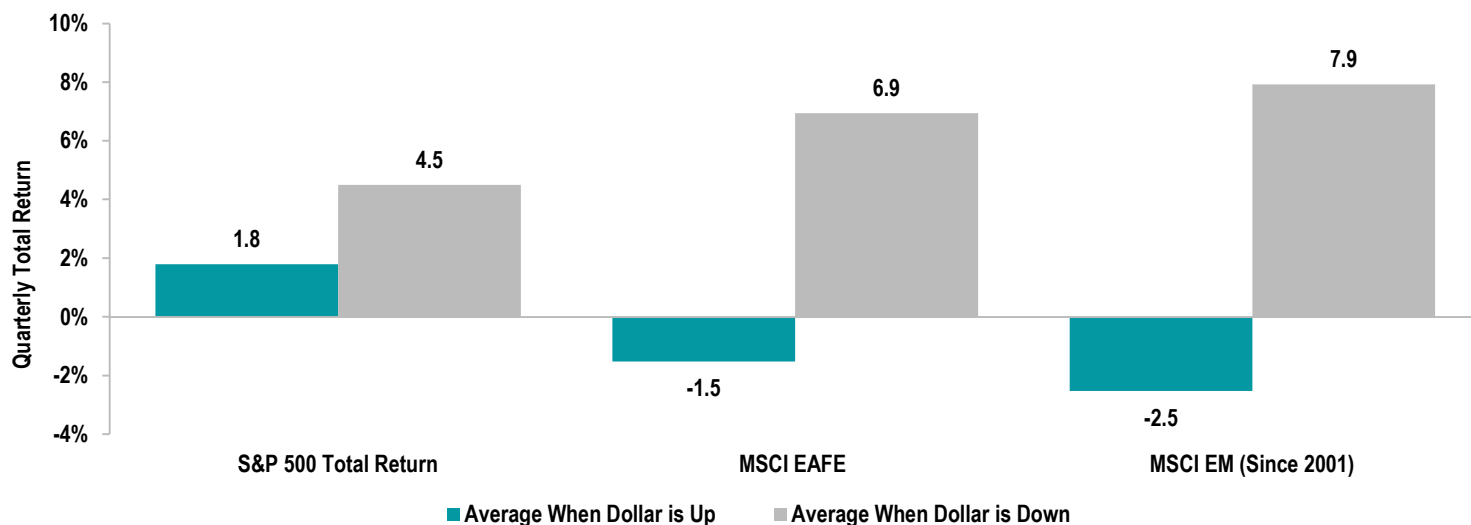
Global Valuations Attractive⁷



- International equities look cheap relative to U.S. stocks even after outperforming in first half of 2025.

Weaker Dollar Supercharges Non-U.S. Stocks

U.S. dollar impact on equity performance since 1974⁸



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

7. As of June 30, 2025. Sources: FactSet, MSCI, S&P.

8. Data as of June 30, 2025. MSCI EAFE and MSCI Emerging Markets are net returns; MSCI Emerging Markets data starts in 2001. Sources: FactSet, S&P, MSCI.

All investments involve risks, including possible loss of principal. Equity securities are subject to price fluctuation and possible 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. **Active management** does not ensure gains or protect against market declines. **Diversification** does not guarantee a profit or protect against a loss.

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