Anatomy of a Recession: Economic and Market Outlook

Fourth Quarter 2025

As of December 1

US Economic Outlook[1]

- The labor market shifted into a lower gear during the third quarter on the back of trade policy uncertainty and reduced immigration, but consensus expectations are for a pickup next year.
- Fiscal and monetary support should provide the foundation for the economy to reaccelerate 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		
		November 30, 2025	October 31, 2025[2]	September 30, 2025
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

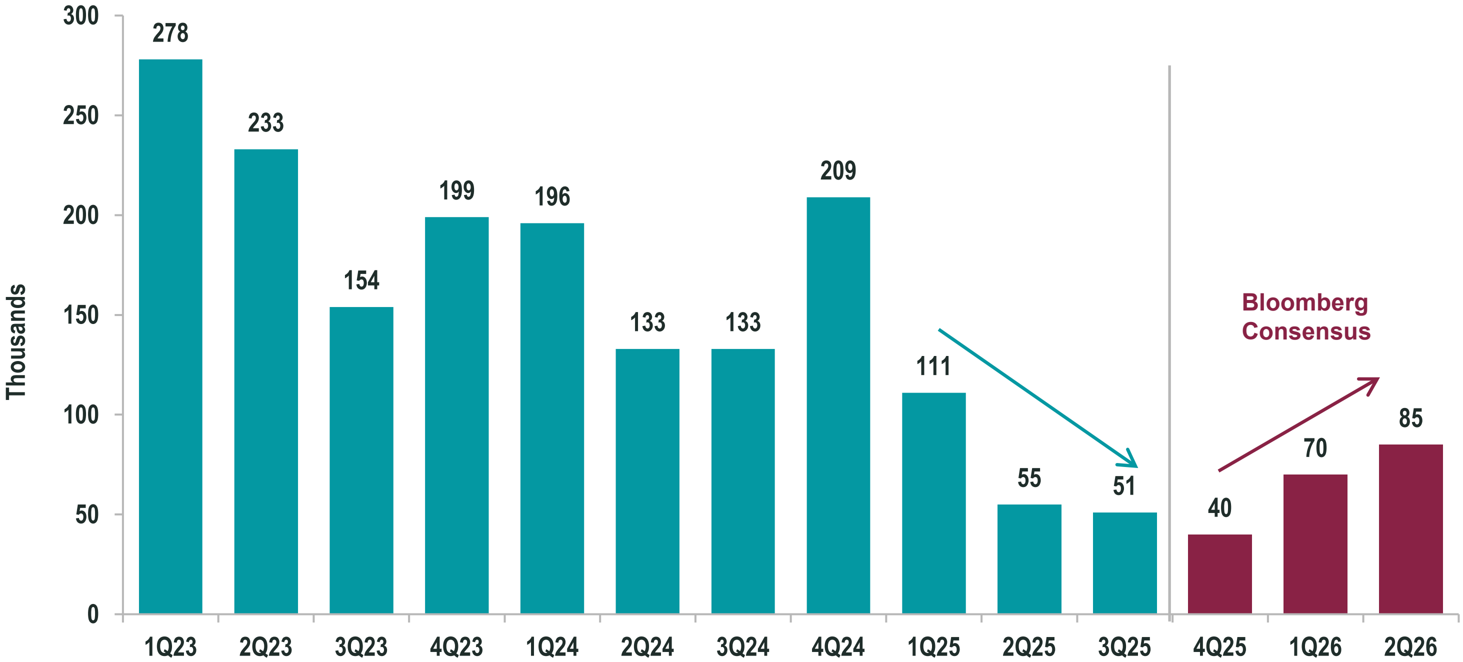
— Not available[3]

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 November 30, 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. Jobless Claims, Retail Sales and Wage Growth were updated with data that had been delayed by the US government shutdown.
3. “Not Available” reflects data that has not been updated due to the government shutdown. Data as of November 30, 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.

Labor Market Slowdown

US job creation (quarterly average)[3]



- Job creation has been steadily slowing over the past few years, a dynamic that accelerated in 2025 due to changes in trade policy and immigration.
- Economists expect a rebound in job creation into 2026 as stimulus comes online and policy headwinds abate.

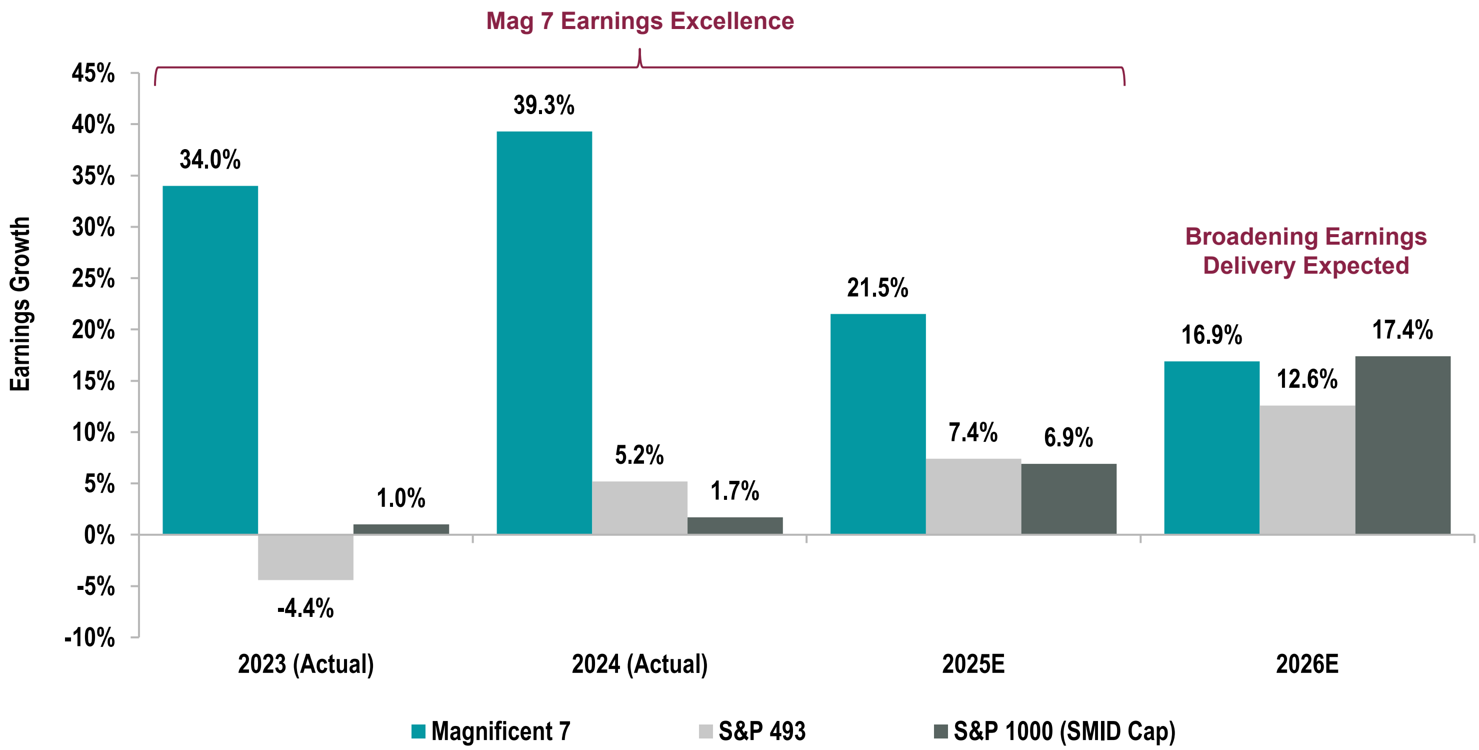
Not All Cuts Are Equal[4]

Initial Cut Date	Economic Outcome	-1Y EPS Growth	+1Y EPS Growth	S&P 500 Price Change 6-Month	S&P 500 Price Change 12-Month	S&P 500 Price Change 24-Month
Apr. 1980	Recession	12.2%	-3.0%	22.8%	33.1%	9.6%
June 1981	Recession	0.5%	-5.6%	-4.6%	-15.5%	22.6%
Oct. 1984	Soft-Landing	22.5%	-9.4%	10.4%	11.3%	41.4%
June 1989	Recession	16.4%	-15.7%	7.4%	12.2%	21.1%
July 1995	Soft-Landing	33.8%	20.3%	11.2%	21.1%	59.8%
Sept. 1998	Soft-Landing	3.6%	5.5%	18.0%	25.9%	44.7%
Jan. 2001	Recession	11.0%	-16.8%	-9.1%	-14.8%	-34.7%
Sept. 2007	Recession	10.6%	-8.9%	-12.4%	-15.6%	-32.8%
July 2019	Recession	9.5%	-12.1%	8.2%	9.8%	47.5%
Sept. 2024	Soft-Landing	6.9%	10.8%	6.0%	15.0%	???
Recessionary Average		10.0%	-10.3%	2.0%	1.5%	5.5%
Soft-Landing Average		16.7%	6.8%	11.4%	18.3%	48.6%
Sept. 2025	???	10.8%	12.9%*	???	???	???

- Soft-landing rate-cut cycles have historically been associated with superior EPS growth and S&P 500 returns.
- Sell-side consensus currently expects 12.9% EPS growth over the next 12 months, which if realized would be consistent with past soft-landing cycles.

3. Note: Quarterly average change in nonfarm payrolls. The term “consensus” within the capital markets industry refers to the average of earnings estimates made by professionals. As of Sept. 30, 2025. Sources: Bloomberg, US Bureau of Labor Statistics (BLS), Macrobond.
4. Sell-side consensus expected next-12-month EPS growth. Rate-cut cycles of at least 75 bps. There is no assurance that any estimate, forecast or projection will be realized. The term “consensus” within the capital markets industry refers to the average of earnings estimates made by professionals. Sources: FactSet, Shiller, S&P.

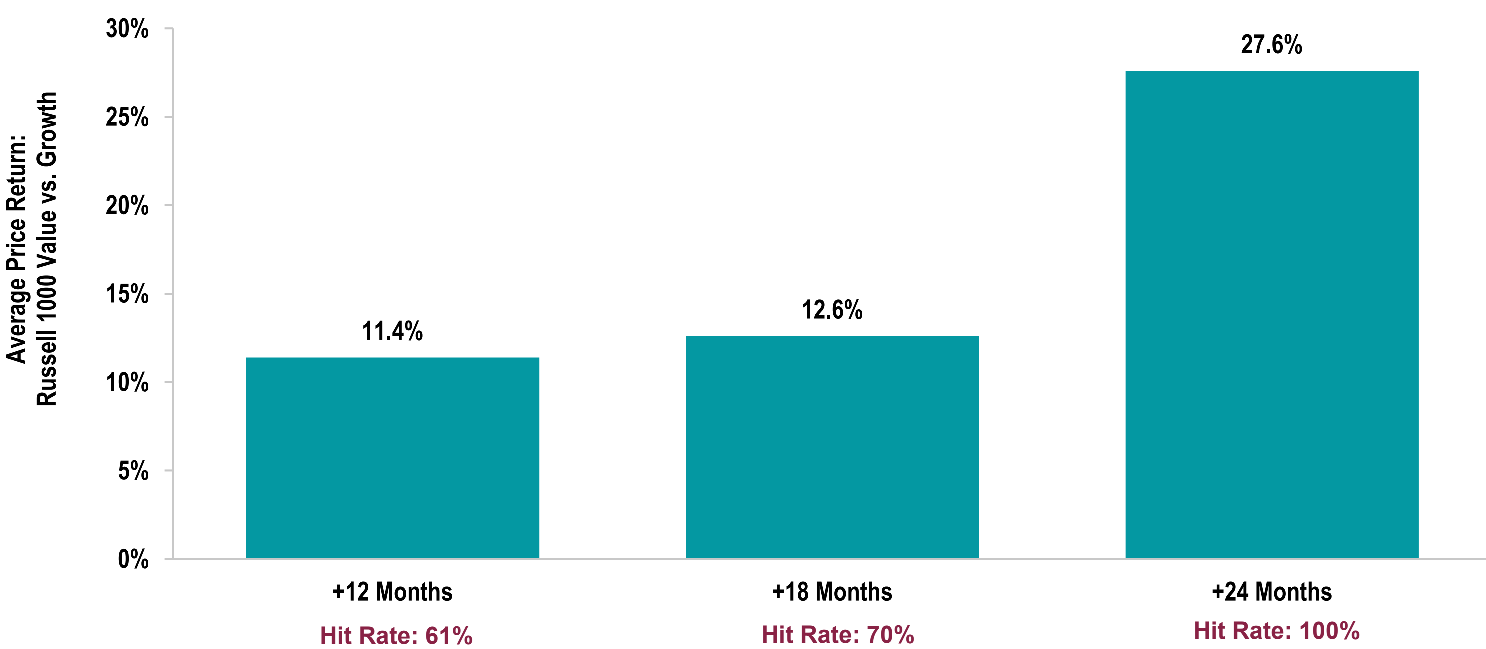
Closing the Gap[5]



- A key driver of the Magnificent 7 outperformance has been superior earnings growth.
- Bottom-up consensus expects this advantage to dissipate with broader earnings delivery across US equities in 2026.

Value, Down but not Out

Relative return of value vs. growth following -25% 12-month value underperformance[6]



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

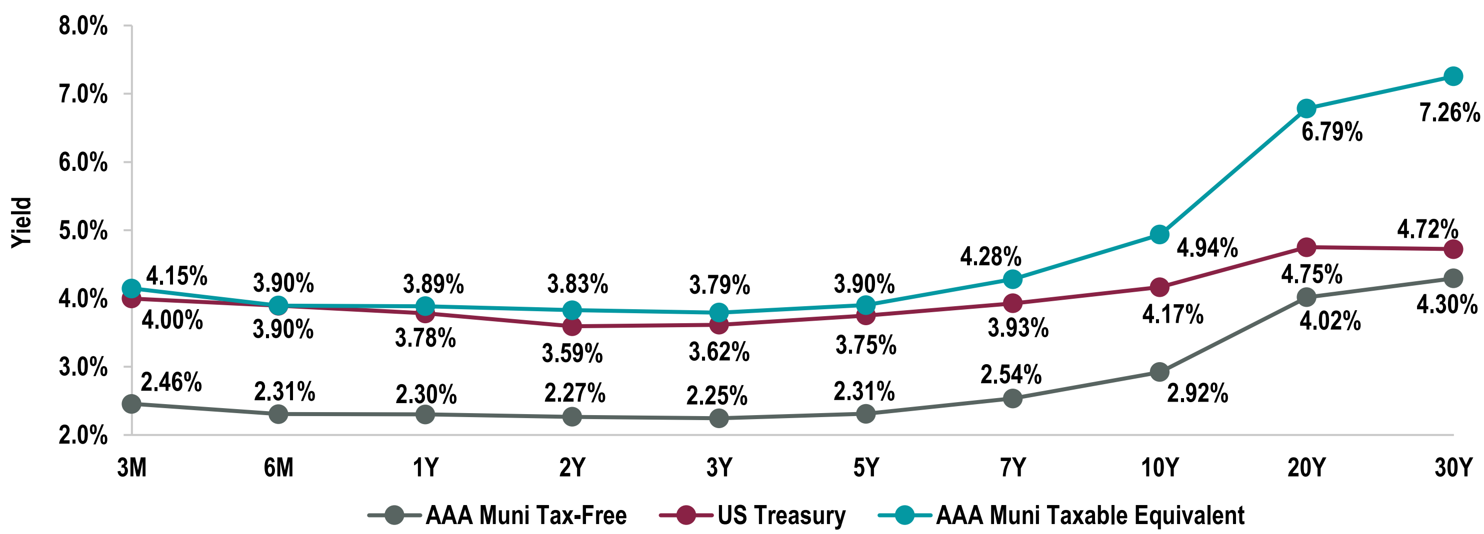
5. The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of Sept. 30, 2025. Sources: FactSet, S&P. 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.
6. Russell 1000 Growth, Russell 1000 Value, reflective of period from 1979 – present, as of Sept. 30, 2025. Sources: FactSet, Russell.

International Equity Leadership Following the Cut[7]

Initial Rate Cut	Economic Outcome	Subsequent 12-Month Price Return: MSCI EAFE	MSCI EAFE Growth	MSCI EAFE Value	MSCI Emerging Markets
Apr. 1980	Recession	32.5%	32.4%	32.5%	--
June 1981	Recession	-7.0%	-11.0%	-4.2%	--
Oct. 1984	Soft-Landing	40.7%	41.5%	40.6%	--
June 1989	Recession	2.4%	-0.3%	5.5%	22.3%
July 1995	Soft-Landing	13.3%	11.6%	15.4%	5.4%
Sept. 1998	Soft-Landing	25.7%	20.3%	30.7%	51.4%
Jan. 2001	Recession	-21.2%	-24.2%	-18.4%	-1.2%
Sept. 2007	Recession	-24.0%	-20.3%	-27.6%	-28.4%
July 2019	Recession	-0.4%	10.5%	-11.1%	6.2%
Sept. 2024	Soft-Landing	17.6%	10.7%	24.7%	26.2%
Average		8.0%	7.1%	8.8%	11.7%
Recessionary Average		-2.9%	-2.2%	-3.9%	-0.3%
Soft-Landing Average		24.3%	21.0%	27.9%	27.6%

- Non-US equities typically surge following the commencement of past soft-landing Federal Reserve rate-cut cycles.

Munis Attractive After Tax[8]



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

7. Note: rate cut cycles of at least 75 bps. Sources: FactSet, MSCI, NBER. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.
8. Note: Taxable Equivalent assumes highest US marginal tax rate. As of Sept. 30, 2025. Source: Bloomberg.

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