FRANKLIN TEMPLETON

ClearBridge

Anatomy of a Recession: Economic and Market Outlook

First Quarter 2024

As of March 1st

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.

There are two changes to the Recession Risk Dashboard with the February 29 update. Housing Permits and the Overall Signal have moved from Red to Yellow.

		Current[1]		
		February 2024	**December 2023**	**September 2023**
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	●	✗	✗

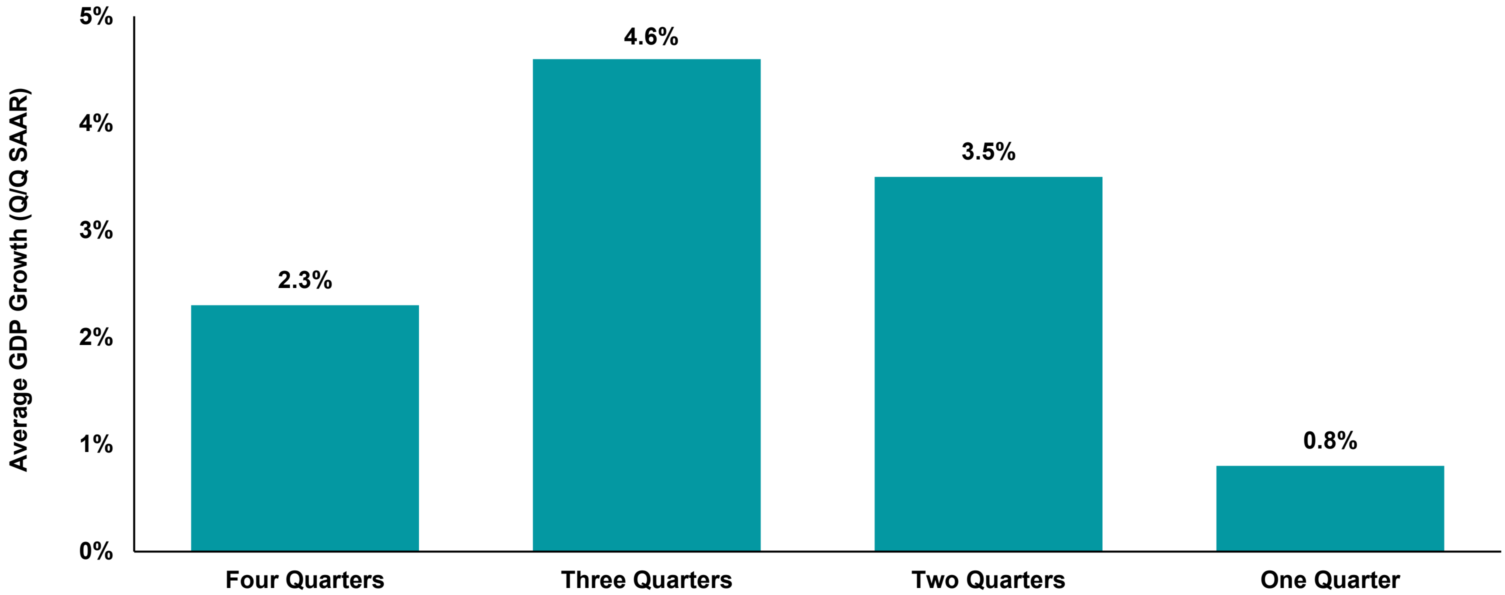
↑ **Expansion**
● **Caution**
✗ **Recession**

1. Data as of February 29, 2024. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. 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.

Where are we in the economic and market cycle?

Economy can turn quickly

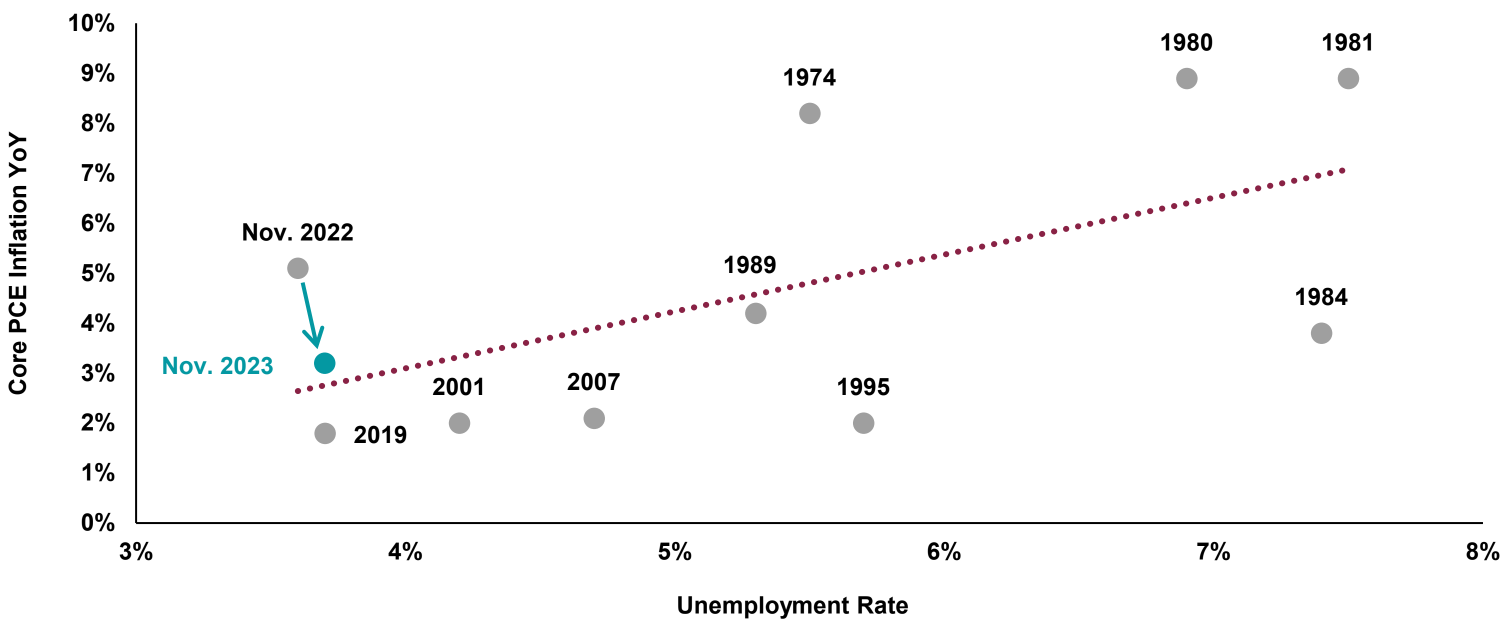
GDP growth prior to onset of recessions[2]



- Economic growth often holds up quite well leading into a recession, with a rapid decline only coming just before onset.

Inflation no longer primary consideration

Core PCE inflation and unemployment at time of first rate cut[3]

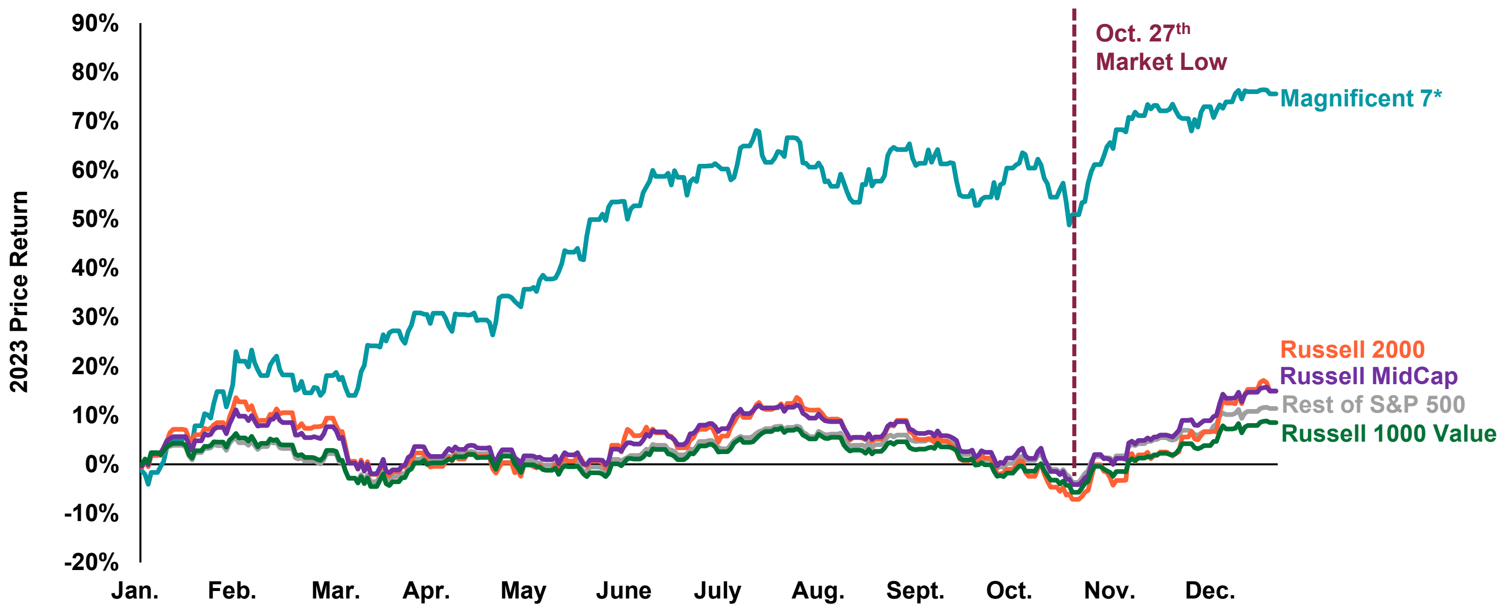


- Over the last 6 months core PCE has come in at 1.9% on an annualized basis, indicating that the Fed is on track to bring inflation back to its 2% target in 2024.
- With inflation cooling, the Fed has more latitude to cut rates and support the full employment side of its dual mandate.

2. The chart includes data from recessions according to NBER, starting with the recession that began in Dec. 1969. Data as of Dec. 31, 2023. Sources: FactSet, BEA, NBER. **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.**
3. Data as of Dec. 31, 2023. Sources: FactSet, BLS, BEA, FOMC, Bloomberg. **Past performance is not a guarantee of future results.**

Where are we in the economic and market cycle?

The Mag 7 and everyone else[4]



- 2023 saw narrow market leadership dominated by the Magnificent 7.
- Since the October lows, leadership has broadened out with the relative advantage of the Magnificent 7 diminishing and the prospects of a soft landing improving.

Copious cash on sidelines

Change in money market fund AUM one year following major market lows[5]

Year	Money Market AUM Net Change (Millions)	Money Market AUM Percent Change	Fed Funds Rate
1990	$55,580	13.5%	5.25%
1998	$215,000	16.9%	5.25%
2002	-$81,620	-3.7%	1.00%
2009	-$815,860	-20.9%	0.25%
2016	-$78,570	-2.9%	0.75%
2018	$565,460	18.6%	1.75%
2020	$226,310	5.4%	0.25%
2022	$1,118,160	24.4%	5.50%

Largest Increase Following a Major Market Low

- In the year following the October 2022 lows, investors flocked into money market funds with a net increase of over $1.1 trillion, or 24.4%.
- This is the largest jump following a major market low and could represent a source of further upside for equities should a soft landing materialize.

4. Magnificent 7 data is cap weighted and refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), App le (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of Dec. 31, 2023. 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.**

5. Data as of Dec. 31, 2023. 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.**

Possible market implications

Normalizing volatility, higher returns?

Historical 12-month annualized returns by starting MOVE Index level[6]

	Leveraged Loans	Corporate Bonds	Emerging Market Bonds	Global Bonds	High Yield Bonds	Multi-Sector	MBS	TIPS	Short-Term Bonds	U.S. Treasury Bonds
MOVE < 76	4.10%	3.05%	3.34%	1.27%	5.25%	1.41%	2.09%	2.74%	1.85%	2.15%
MOVE 76-100	4.36%	4.93%	8.41%	3.21%	4.85%	3.34%	4.20%	6.08%	2.86%	4.29%
MOVE > 100	6.38%	7.54%	12.95%	6.14%	10.42%	6.33%	5.54%	7.12%	3.96%	5.14%
Average	4.91%	4.99%	7.74%	3.35%	6.84%	3.50%	3.74%	5.01%	2.79%	3.66%

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

Current MOVE Index (as of Dec. 29, 2023): 114.62

No earnings, no problem

Percent of non-profitable companies[7]

	Current	Long-Term Average	Highest Since 1990
Russell 1000 Growth	16.0%	11.2%	33.5%
Russell 1000	16.3%	11.8%	28.4%
Russell 1000 Value	15.5%	12.7%	37.0%
Russell 2000 Growth	45.5%	30.1%	54.8%
Russell 2000	42.6%	28.0%	48.6%
Russell 2000 Value	41.7%	25.6%	46.2%

Lowest Percentage of Non-Profitable Companies

- The Large Cap Value benchmark has the lowest share of non-profitable companies.
- This dynamic could support the group in an earnings slowdown or recession.

6. 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 Dec. 29, 2023, as of Dec. 29, 2023. 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.**
7. Data as of Dec. 31, 2023. Source: Strategas . **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.**

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