10 Things You Should Know About Recessions

The economy is not the stock market. In fact, stocks have generated positive returns on average during economic contractions.

1. **What's in a name?:** A recession is an extended period of declining economic output, wages, employment, industrial production, and retail sales.[1]

2. **A recession is not the same as a down market:** The stock market is based on expectations for the economy in six to 12 months, so stocks can move up during a recession—or down when the economy's expanding. By contrast, economic recessions or expansions may not be identified until months after they begin.

3. **Internal versus external shocks:** Recessions can be started by imbalances in the economy, such as a financial crisis; these imbalances usually must stabilize for the recession to end. They can also be started by the economy's reaction to external shocks, such as a pandemic, war, or terrorist attack.

4. **The customer is always right:** Consumer spending is the largest driver of US economic growth. Today, it accounts for about 68% of US economic activity.[2]

5. **What goes up must come down:** Recessions and expansions are a normal part of the economic cycle. There have been 13 recessions since 1945, occuring about six years apart on average.[3]

6. **We grow more than we contract:** Excluding the Great Depression, US recessions have lasted an average of about 10 months. The Great Recession, which followed the global financial crisis, lasted 18 months; the expansion that followed it is the longest on record, spanning more than 10 years. The pandemic-induced recession in 2020, which lasted two months, is the shortest on record.

7. **Connected, but not always in sync:** Even in today's interconnected world, individual countries can enter recessions without involving the global economy. According to the World Bank, there have been six global recessions since 1950 (compared to 13 in the US in the same time frame).[4]

8. **Bad begets good:** The Federal Reserve Bank of Cleveland found that the worse a recession, the stronger the expansion that followed it. They didn't find a connection between the length of an economic expansion and the severity of the recession that followed it.[5]

[1] The National Bureau of Economic Research (NBER) is the organization responsible for identifying economic cycles. The definition of a recession used to be two consecutive quarters of decline in real GDP, but is now more nuanced: Extended diminishing activity in real GDP (an inflation-adjusted measurement of the value of all goods and services produced by an economy), real income (inflation-adjusted measurement of how much money an individual makes), employment, industrial production, and wholesale-retail sales output.

[2] US Bureau of Economic Analysis, as of Q4 2021

[3] Data source for recession statistics: NBER unless otherwise noted.

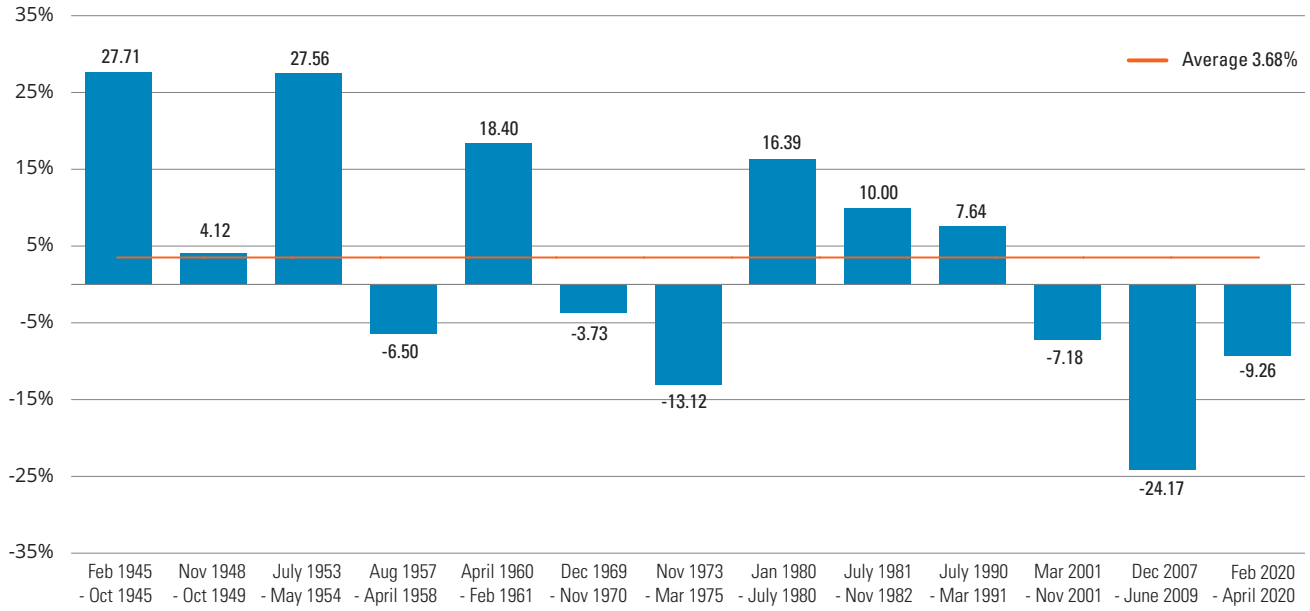
[4] "Understanding the Depth of the 2020 Global Recession in 5 Charts," M. Ayhan Kosen and Naotaka Sugawara, World Bank 6/15/20. Most recent data available.

[5] "Do longer expansions lead to more severe recessions? No, say Cleveland Fed researchers," Federal Reserve Bank of Cleveland, January 2019. Most recent data available.

9. **Not all stocks are created equal:** Recessions impact various sectors of the economy, and the stock market, differently. Industries considered "cyclical" are more impacted during economic contractions (think discretionary purchases such as travel), while others are necessities regardless of economic cycle (think utilities).

10. **Stocks can grow when the economy contracts:** Although down markets sometimes coincide with recessions, stocks actually produced *positive* returns during seven of the 13 recessions since 1945. In fact, the S&P 500 Index gained 3.68% on average during recessions (see chart below).

Stocks Have Posted Positive Returns During Recessions More Often Than Not
S&P 500 Index Performance During Recessions Since 1945



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data sources: Morningstar, Ned Davis Research, and Hartford Funds, 3/22.

Talk to your financial professional to see how changes in the economy could impact your portfolio.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Important Risks: Investing involves risk, including the possible loss of principal.

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