
Are We Headed for a Recession?

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Just two years removed from the last US recession, negative stock returns and aggressive US Federal Reserve interest rate hikes have many investors concerned we are headed for another big “R”—if we’re not already there. But recessions are always identified with a lag. By the time one is called, the worst of its impact on markets has usually passed.

The National Bureau of Economic Research (NBER) identifies phases of the business cycle using a bevy of indicators, such as consumption and income data, employment rates, and gross domestic product growth. None of these measures has been consistently dominant in the determination of economic conditions, and certainly past US recessions [have come in all shapes and sizes](#). Recessions are therefore named retroactively, with the benefit of hindsight (and additional economic data that may be available with a lag).

Because recessions are proclaimed with a delay, rather than in real time, markets are often on the way toward a recovery by the time of the announcement. As shown in **Exhibit 1**, the stock market had already bottomed out prior to the announcement month in two-thirds of recessions since 1980.¹ In 2020’s recession, for example, the market’s low point came in March, three months before the announcement in June 2020. The takeaway for investors? If and when a recession is declared, we think the most sensible approach is to remain disciplined with one’s asset allocation; reducing exposure to stocks at that point may lead to missing out on brighter days ahead.

Exhibit 1**Fret Lag**

Recession announcements
vs. US stock market lows

Peak Month	Announcement Month	US Market Low Month	Months from Announcement to Market Low
Jan-80	Jun-80	Mar-80	-3
Jul-81	Jan-82	Jul-82	6
Jul-90	Apr-91	Oct-90	-6
Mar-01	Nov-01	Sep-01	-2
Dec-07	Dec-08	Feb-09	2
Feb-20	Jun-20	Mar-20	-3

Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Business cycle peak and recession announcement dates sourced from the National Bureau of Economic Research. US market represented by the Fama/French Total US Market Research Index.

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Long-Term Investors, Don't Let a Recession Faze You

Gross domestic product: The total value of goods and services produced by, for example, a country over a set period of time.

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French Website.

Results shown during periods prior to each index's index inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

1. Prior to 1979, the NBER did not formally announce recessions.

This material is in relation to the US market and contains analysis specific to the US.

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