On The Mark

Is a Recession Needed to Tame the Bear?

Special Edition

There's a "hurricane" coming for the US economy. Headlines from titans like Jamie Dimon, JPMorgan Chase CEO, have fueled predictions about the next recession. This has clearly spooked investors, who are left wondering how to shield themselves from the challenges that may lie ahead. If another recession is looming, will the markets not recover until the recession has ended? While it's impossible to predict what is going to happen next, we can learn from history. Let's take a look at the differences between a bear market and a recession, and how stocks have performed during a recession.

A simple definition of a recession is two consecutive quarters of negative Gross Domestic Product (GDP)[i] growth. While this does not meet the full scope of a recession, as defined by the National Bureau of Economic Research (NBER), it does provide a guideline. To date, we have only seen a single quarter of negative growth in 2022, so technically a recession has not yet started. Economic statistics are backward-looking, so it will take some time before the NBER declares the economy in an official recession.

A bear market, on the other hand, is associated with the stock market and is defined as a 20% decline in prices from its last peak. The stock market tends to be forward-looking and often starts going down before the economy turns south and similarly starts turning back up before the recession ends. This is evident by looking at the S&P 500 performance from market highs to lows from the start to the end of a recession.

- Since 1953, the US has experienced 11 recessions, during which, on average, stocks did worse before a recession began than during the recession itself[ii].
- Since 1953, the stock market, on average, peaked six months before the start of the recession and incurred most of the losses during that period[iii].
- Looking at the market recovery, in all but the technology crash of 2001, the market on average bottomed three months before the recession ended, with significant positive returns from the lows to the end of the recession[iv].

Start of recession	End of recession	S&P 500 peak prior to the start of the recession (months)	Return from peak to start of the recession	S&P 500 bottom before the end of the recession (months)	Return from base to end of the recession
7/1/1953	5/1/1954	6	-8.8%	8	20.7%
8/1/1957	4/1/1958	12	-3.3%	3	4.9%
4/1/1960	2/1/1961	8	-8.4%	4	15.7%
12/1/1969	11/1/1970	12	-14.0%	4	14.0%
11/1/1973	3/1/1975	10	-8.8%	5	28.7%
1/1/1980	7/1/1980	3	-0.6%	0	0.0%
7/1/1981	11/1/1982	7	-5.4%	3	26.5%
7/1/1990	3/1/1991	1	-1.4%	4	20.7%
3/1/2001	11/1/2001	6	-18.4%	-16	-22.4%
12/1/2007	6/1/2009	6	-3.6%	3	28.3%
2/1/2020	4/1/2020	1	-0.2%	0	0.0%
Average		6	-6.6%	3	12.4%

Source: Beaumont Capital Management. Staying the Course During Turbulent Times. June 2022.

Conclusion

In conclusion, the economy is not the stock market even though the two are linked over time. As a reminder, the stock market reflects future expectations for the economy, so stocks can move up during a recession or down when the economy is expanding. No one knows with precision when the start and end of the next recession will be, but we do know that both recessions and bear markets don't last forever.

[i] Gross Domestic Product (GDP) is the value of all goods and services produced by the economy.
[ii] Forbes. How stocks perform before, during and, after recessions may surprise you.
[iii] Beaumont Capital Management. Staying the Course During Turbulent Times. June 2022.
[iv] Beaumont Capital Management. Staying the Course During Turbulent Times. June 2022.

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