

What Happens When a Recession Ends?

The release of second quarter GDP last week indicated another quarter of negative growth and provided another data point suggesting that the U.S. economy entered a recession at the start of this year. The definition of “recession” is somewhat ambiguous, and recessions are only “officially” determined well after the fact*. However, of the past eleven periods in the post-World War II era in which GDP has declined for two consecutive quarters, all eleven have ultimately been defined as a recession.

With that in mind, it is worth thinking about what happens to stocks in the months *before* a recession ends. The average post-World War II recession prior to the 2020 COVID pandemic lasted just under one year (we’ve omitted the 2020 recession for now, since it lasted only two months). Assuming that a current recession started

at the beginning of this year, it may be over by the end of 2022.

The table below shows the performance of the S&P 500 over a range of time periods, beginning 6 months *before* recessions ended and 24 months *after* recessions ended. What’s interesting about the data is that the market tended to perform almost as well in the 6 months *before* the recession ended as in the first 6 months *after* the recession ended. The stock market has tended to rise well before a recession actually ends.

Clearly, the current economic environment is challenging on a number of fronts. However, waiting to buy stocks “until the coast is clear” in terms of economic data would likely result in significant potential returns being left on the table.

* Recessions are “officially” defined by the National Bureau of Economic Research (NBER). A downturn must be deep, pervasive, and lasting to qualify as a recession by NBER’s definition, but these are retrospective judgment calls made by academics, not mathematical formulas designed to flag a recession as soon as one begins.

S&P 500 Price Changes Before and After a Recession Ends⁽¹⁾⁽²⁾

Recession End Date	Price Changes Before Recession End Date: ⁽³⁾						Price Changes After Recession End Date:							
	6 Months Before	5 Months Before	4 Months Before	3 Months Before	2 Months Before	1 Month Before	1 Month After	2 Months After	3 Months After	4 Months After	5 Months After	6 Months After	12 Months After	24 Months After
10/31/1949	9.0%	13.0%	13.3%	6.6%	5.4%	3.0%	0.1%	4.7%	6.3%	7.4%	7.8%	12.0%	21.8%	43.0%
05/28/1954	17.9%	17.7%	11.9%	11.6%	8.4%	3.3%	0.1%	5.8%	2.2%	10.7%	8.5%	17.3%	29.9%	54.8%
04/30/1958	5.8%	4.1%	8.6%	4.2%	6.4%	3.2%	1.5%	4.1%	8.6%	9.9%	15.2%	18.2%	32.6%	25.2%
02/28/1961	11.4%	18.5%	18.8%	14.2%	9.2%	2.7%	2.6%	2.9%	4.9%	1.9%	5.2%	7.3%	10.3%	1.3%
11/30/1970	13.9%	19.9%	11.7%	7.0%	3.6%	4.7%	5.5%	9.9%	11.0%	15.0%	19.1%	14.3%	7.8%	33.8%
03/31/1975	31.2%	12.8%	19.1%	21.6%	8.3%	2.2%	4.7%	9.3%	14.2%	6.5%	4.2%	0.6%	23.3%	18.1%
07/31/1980	5.7%	7.0%	19.2%	14.5%	9.4%	6.5%	0.6%	3.1%	4.8%	15.5%	11.6%	6.5%	7.6%	-12.0%
11/30/1982	23.8%	26.4%	29.4%	15.9%	15.0%	3.6%	1.5%	4.9%	6.9%	10.4%	18.7%	17.2%	20.1%	18.1%
03/28/1991	22.6%	23.4%	16.4%	13.6%	9.1%	2.2%	0.0%	3.9%	-1.1%	3.4%	5.4%	3.4%	7.6%	20.4%
10/31/2001	-15.2%	-15.6%	-13.4%	-12.5%	-6.5%	1.8%	7.5%	8.3%	6.6%	4.4%	8.3%	1.6%	-16.4%	-0.9%
06/30/2009	1.8%	11.3%	25.1%	15.2%	5.3%	0.0%	7.4%	11.0%	15.0%	12.7%	19.2%	21.3%	12.1%	43.7%
04/30/2020	-4.1%	-7.3%	-9.9%	-9.7%	-1.4%	12.7%	4.5%	6.5%	12.3%	20.2%	15.5%	12.3%	43.6%	41.9%
Averages	10.3%	10.9%	12.5%	8.5%	6.0%	3.8%	3.0%	6.2%	7.6%	9.8%	11.6%	11.0%	16.7%	23.9%
Percentage Positive	83%	83%	83%	83%	83%	100%	100%	100%	92%	100%	100%	100%	92%	83%
Averages Excluding 2020 Recession	11.6%	12.6%	14.6%	10.2%	6.7%	3.0%	2.9%	6.2%	7.2%	8.9%	11.2%	10.9%	14.2%	22.3%
Percentage Positive	91%	91%	91%	91%	91%	100%	100%	100%	91%	100%	100%	100%	91%	82%

⁽¹⁾ Periods greater than one year are not annualized.

⁽²⁾ Official Recession End Dates as determined by the National Bureau for Economic Research (NBER).

⁽³⁾ The 2020 recession lasted only two months, therefore some of the pre-recession ending data covers periods when the recession had not yet started.

Sources: Renaissance Research, FactSet

DISCLOSURES

This Market Update reflects the thoughts of Renaissance as of August 5, 2022. This information has been provided by Renaissance Investment Management. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision, nor should it be considered a recommendation. The views and opinions expressed are those of the Chief Investment Officer at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing.

PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government.

REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

S & P DATA

S&P Dow Jones is the source and owner of the trademarks, service marks and copyrights related to the S&P Indexes. S&P® is a trademark of S&P Dow Jones. This presentation may contain proprietary S&P data and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Renaissance Investment Management. S&P Dow Jones is not responsible for the formatting or configuration of this material or for any inaccuracy in Renaissance's presentation thereof. This data is to be used for the recipient's internal use only.