FRANKLIN TEMPLETON

ClearBridge

Anatomy of a Recession: Economic and Market Outlook

Second Quarter 2025

As of April 1

US Economic Outlook[1]

- The US economy has continued to hold up despite the emergence of a soft patch in Q1. The overall signal from the ClearBridge Recession Risk Dashboard remains in green "expansion" territory.
- Elevated policy uncertainty has weighed on consumer, business, and investor sentiment. Whether or not weaker outlooks translate into softer activity will be a key determinate of the economic path forward.

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.

		Current[2]		
		March 2025	February 2025	January 2025
Consumer	Housing Permits	Expansion	Expansion	Expansion
Consumer	Job Sentiment	Recession	Recession	Recession
Consumer	Jobless Claims	Expansion	Expansion	Expansion
Consumer	Retail Sales	Expansion	Expansion	Expansion
Consumer	Wage Growth	Expansion	Expansion	Expansion
Business Activity	Commodities	Expansion	Expansion	Expansion
Business Activity	ISM New Orders	Recession	Caution	Expansion
Business Activity	Profit Margins	Expansion	Expansion	Expansion
Business Activity	Truck Shipments	Caution	Caution	Caution
Financial	Credit Spreads	Expansion	Expansion	Expansion
Financial	Money Supply	Expansion	Expansion	Expansion
Financial	Yield Curve	Recession	Recession	Caution
	Overall Signal	Expansion	Expansion	Expansion

Expansion
Caution
Recession

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.

1. As of March 31, 2025. All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the author and may differ from other portfolio managers or the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision.

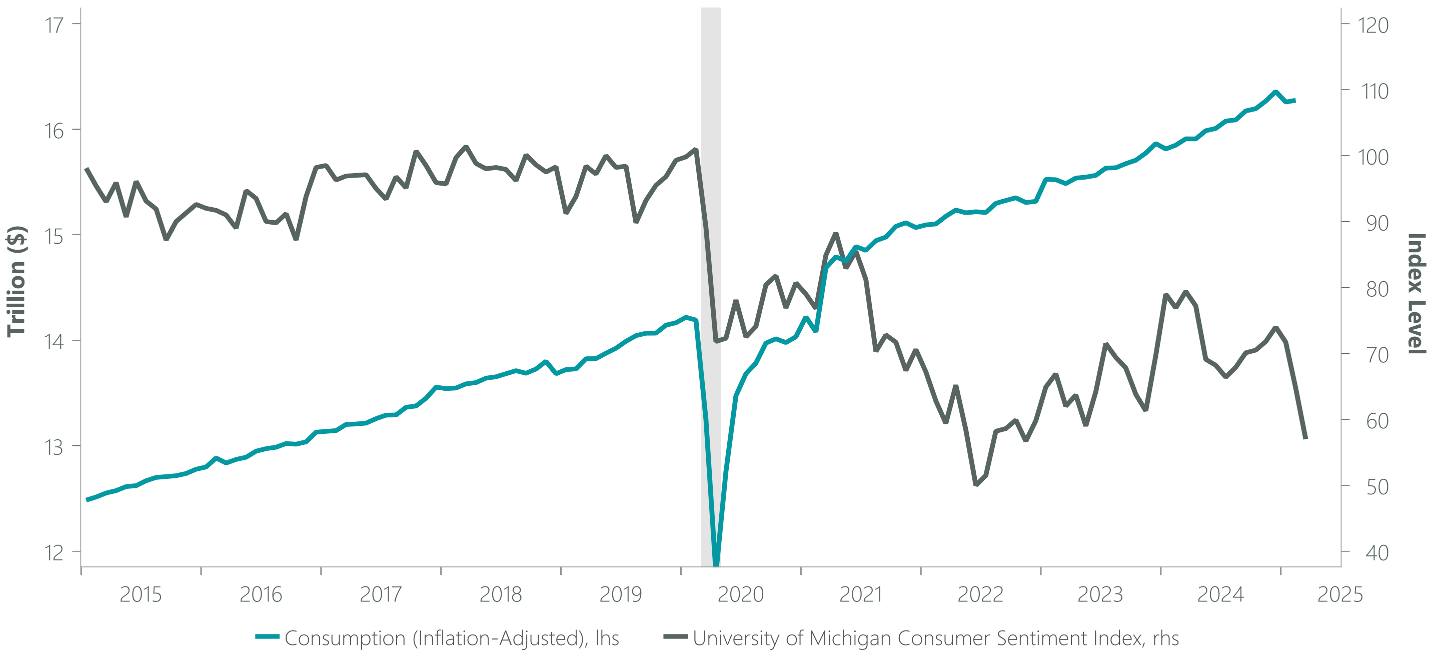
2. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME, FactSet and Macrobond. Data as of March 31, 2025. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it 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.

Not a Deposit | Not FDIC Insured | May Lose Value | Not Bank Guaranteed

Not insured by any Federal Government Agency

Actions Speak Louder Than Words

Consumption (inflation-adjusted) vs. consumer sentiment[3]



- While consumer sentiment has remained in the doldrums since the COVID-19 pandemic, this has not led to changes in overall spending patterns.
- The recent drop in sentiment has been largely fueled by tariff-related uncertainty, but a healthy labor market and strong household balance sheets should provide solid footing for 2025 spending.

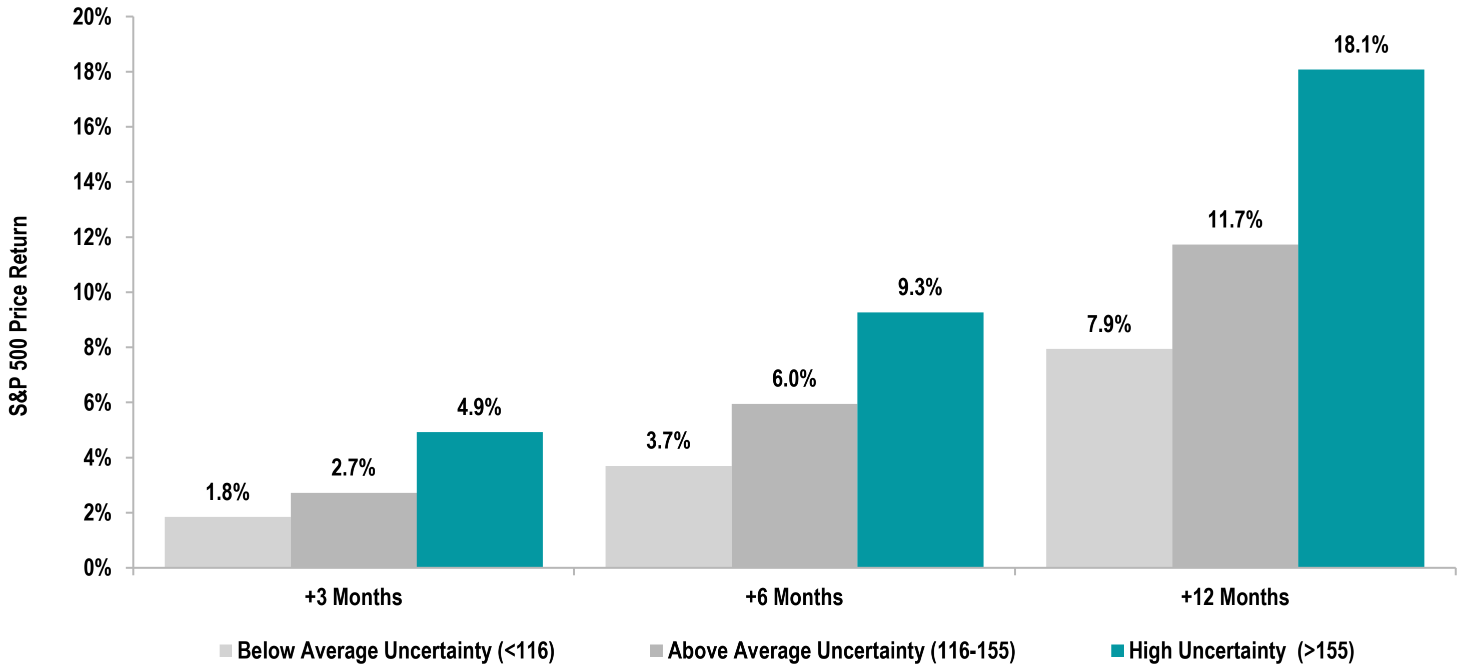
Tariff Turbulence?[4]

- The S&P 500 index traded largely sideways during the period of tariff escalation during the first Trump administration.
- With tariffs front and center, policy sequencing has impacted equity market behavior so far in 2025. The more market-friendly policies of tax cuts and deregulation should arrive in the second half of the year.

3. Sources: University of Michigan, US Bureau of Economic Analysis (BEA), NBER, Macrobond. Data last updated March 14, 2025, latest available as of March 31, 2025. Gray shading marks recessionary periods.
4. Sources: S&P Global, Macrobond. Data last updated on January 3, 2025.

Certainty in Uncertainty

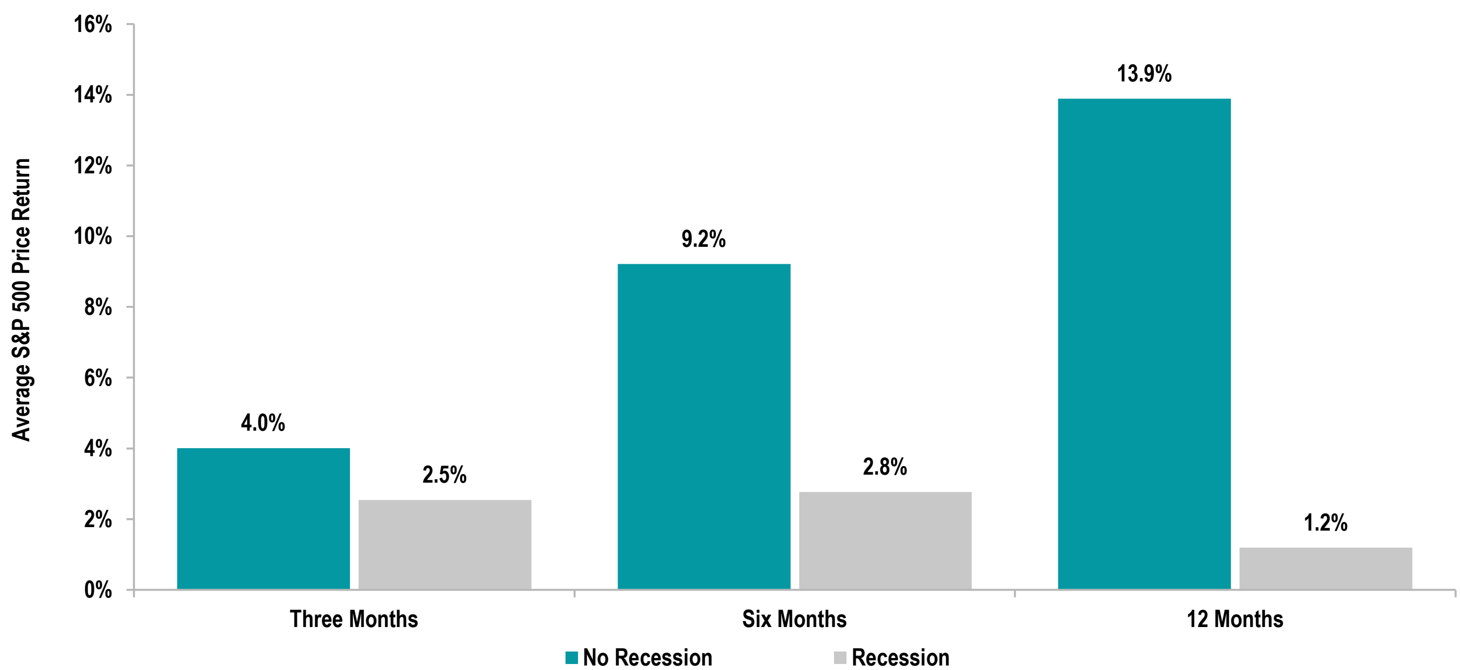
Average S&P 500 Index returns based on starting US Policy Certainty Index level[5]



- Over the past 40 years, periods of elevated US policy uncertainty (such as today) have historically given way to superior forward equity market returns as clarity is restored.

Buy the Correction?

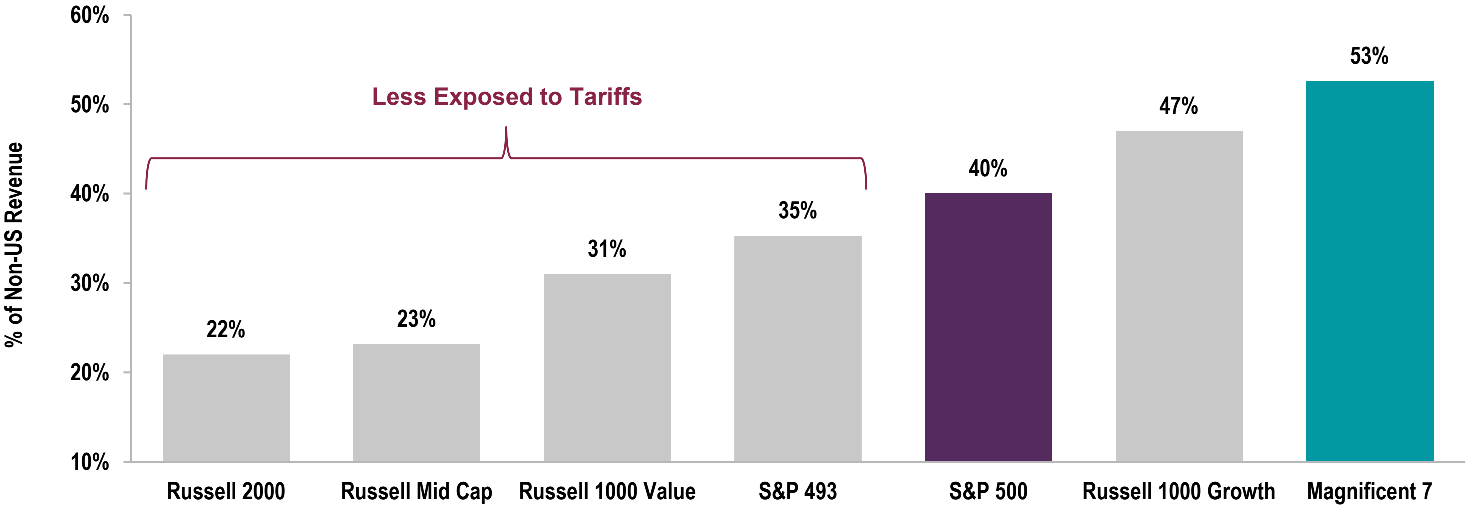
Performance following corrections of at least -10% since 1950[6]



- Investors have historically been rewarded for buying US equities following corrections of at least -10% that did not lead to recessions.
- History suggests the current pullback could be an opportunity for long-term investors should the expansion continue.

5. Data shown from 1985 – present. Data as of March 31, 2025. Source: Macrobond, S&P, FactSet, Economic Policy Uncertainty.
6. 34 pullbacks of 10% or more, No Recession & Recession groupings based on 10% corrections that did/did not precede recessions. Sources: Bloomberg, FactSet, S&P, NBER.

Mag7 Soft Spot?[7]



- The Magnificent 7 stocks derive a substantially larger portion of their revenues from outside of the United States, making them more exposed to the risks from a trade war.

Normalizing Volatility, Higher Returns?

Historical 12-month annualized returns by starting MOVE Index level[8]

	Short-Term Bonds	US Treasury Bonds	MBS	Global Bonds	Multi-Sector	TIPS	Leveraged Loans	Corporate Bonds	High Yield Bonds	Emerging Market Bonds
MOVE <76	1.85%	2.15%	2.09%	1.27%	1.41%	2.74%	4.10%	3.05%	5.25%	3.34%
MOVE 76-100	2.92%	4.25%	4.18%	3.18%	3.31%	6.03%	4.49%	4.92%	4.95%	8.36%
MOVE >100	4.09%	4.91%	5.41%	5.77%	5.98%	6.74%	6.88%	7.41%	10.55%	12.61%
Average	2.90%	3.64%	3.77%	3.33%	3.49%	4.96%	5.18%	5.05%	7.05%	7.84%

Current MOVE Index (as of March 31, 2025): 101.35

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

7. Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of March 31, 2025. Sources: FactSet, Russell, S&P.
8. The MOVE Index measures US interest rate volatility through US Treasury options pricing and is designed to measure fixed income market sentiment. Data represents period from January 29, 1999 – March 31, 2025, as of March 31, 2025. Sources: ICE, Bank of America Merrill Lynch, Bloomberg, Credit Suisse.

All investments involve risks, including possible loss of principal. Stocks historically have outperformed other asset classes over the long term but tend to fluctuate more dramatically over the short term. **Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As **interest rates** rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Floating-rate loans** and **debt securities** are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal**. International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.
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