Anatomy of a Recession

Second Quarter 2023

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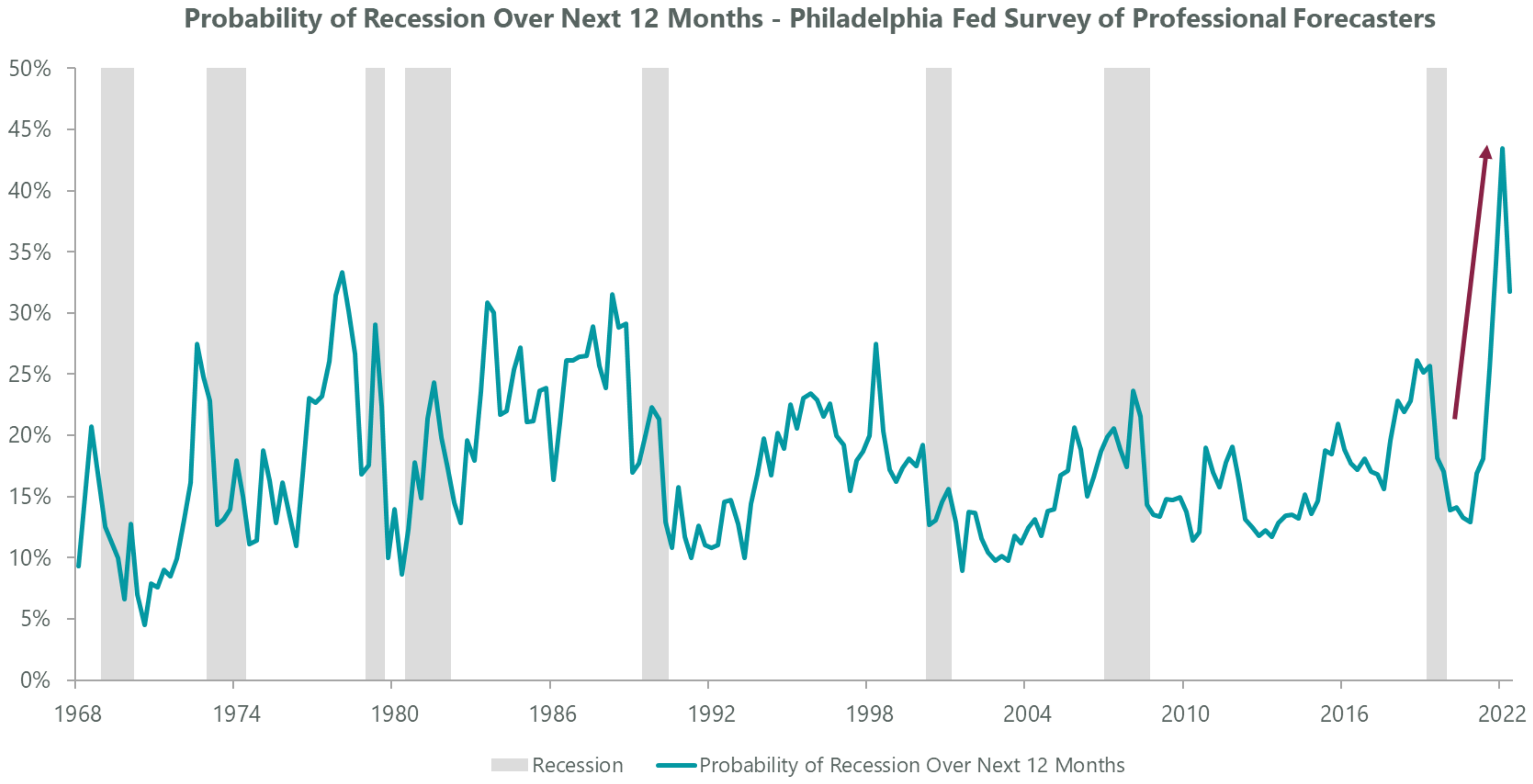
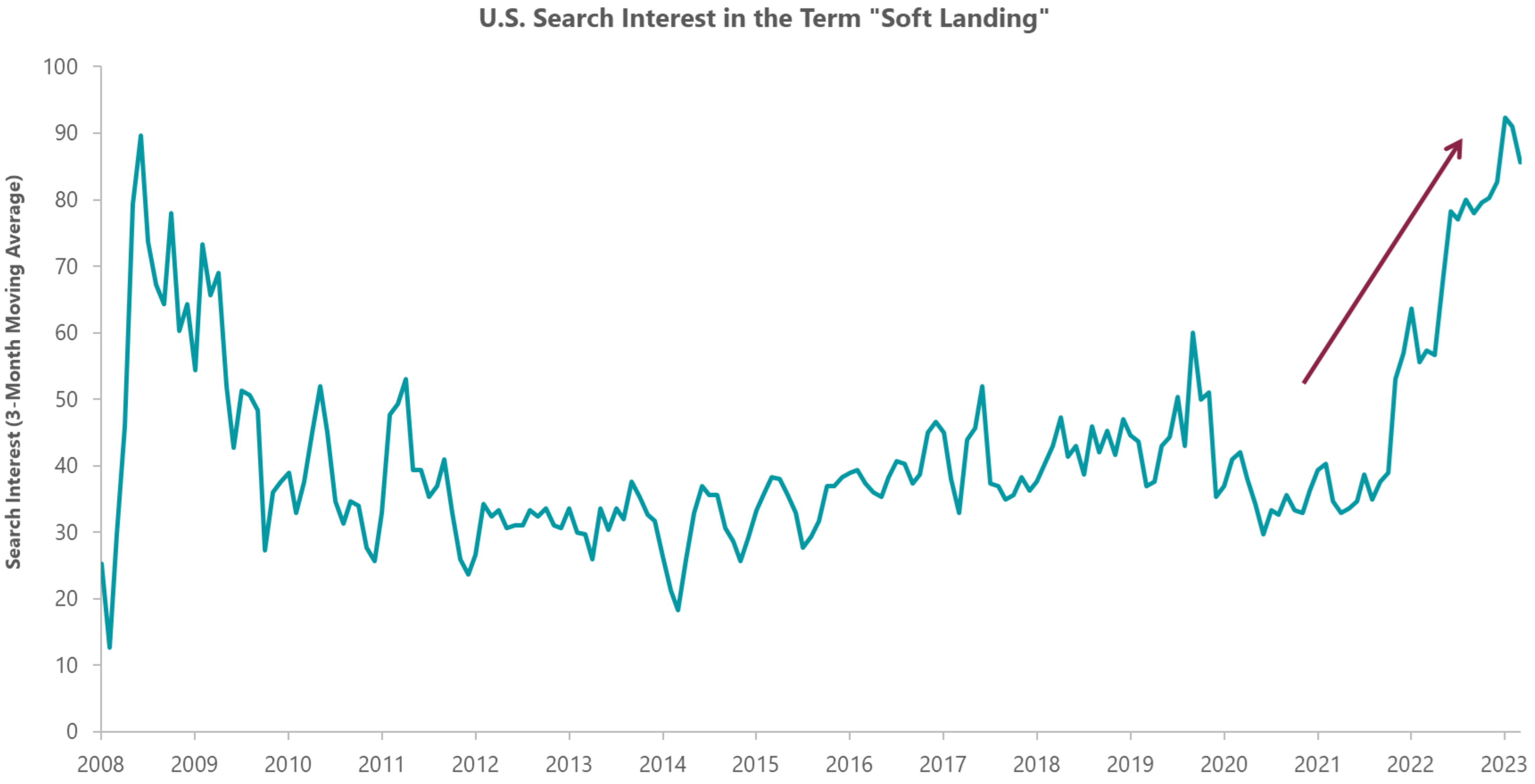
ClearBridge Investments

Most Anticipated Recession Ever



Data as of March 31, 2023. Source: Federal Reserve Bank of Philadelphia, FactSet. Past performance is not a guarantee of future results.

Soft Landing?



Data as of March 31, 2023. Source: Google Trends. Note: 3-Month Moving Average; Search Interest is a relative measure where a value of 100 represents peak popularity and 50 means the term is half as popular. Past performance is not a guarantee of future results.

U.S. Recession Risk Indicators

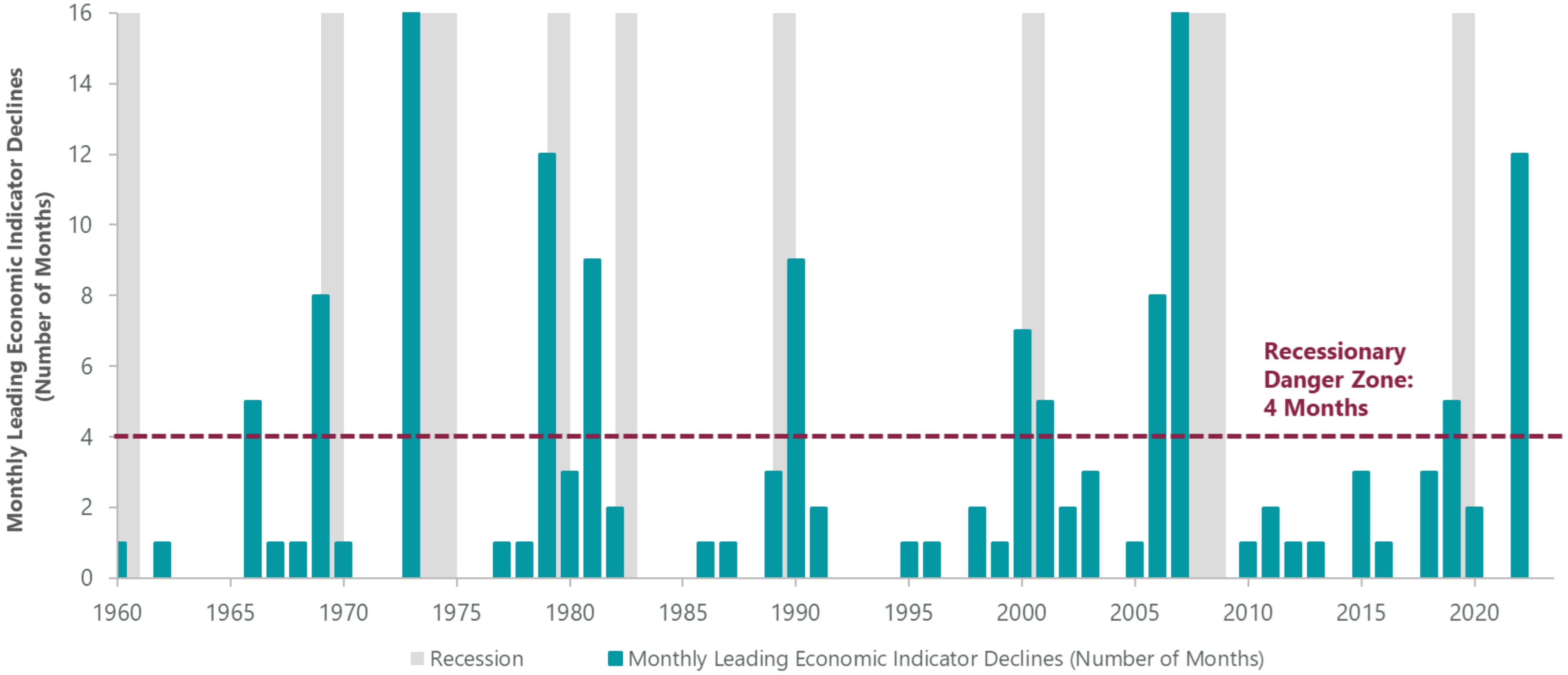
- 12 variables have historically foreshadowed a looming recession
- The overall dashboard is currently signaling recession

		Current	Rapid Summer Deterioration		
		April 30	August 31	July 31	June 30
Consumer	Housing Permits	✖	⬆	⬆	⬆
	Job Sentiment	✖	⬆	⬆	⬆
	Jobless Claims	●	⬆	⬆	⬆
	Retail Sales	✖	✖	✖	●
	Wage Growth	✖	✖	✖	✖
Business Activity	Commodities	✖	✖	✖	●
	ISM New Orders	✖	●	●	●
	Profit Margins	✖	⬆	⬆	⬆
	Truck Shipments	●	⬆	⬆	⬆
Financial	Credit Spreads	✖	✖	✖	✖
	Money Supply	✖	✖	●	●
	Yield Curve	✖	●	●	⬆
	Overall Signal	✖	✖	●	⬆

⬆ Expansion ● Caution ✖ Recession

Data as of April 30, 2023. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. 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.

Leading Indicators Point to Recession



- **Historical declines in the Leading Economic Indicators lasting more than several months have foreshadowed economic downturns.**
- **The Leading Economic Indicators have been declining for the last twelve months.**

Data as of March 31, 2023, latest available as of April 30, 2023. Source: Conference Board US and FactSet. Past performance is not a guarantee of future results.

Long and Variable Lags

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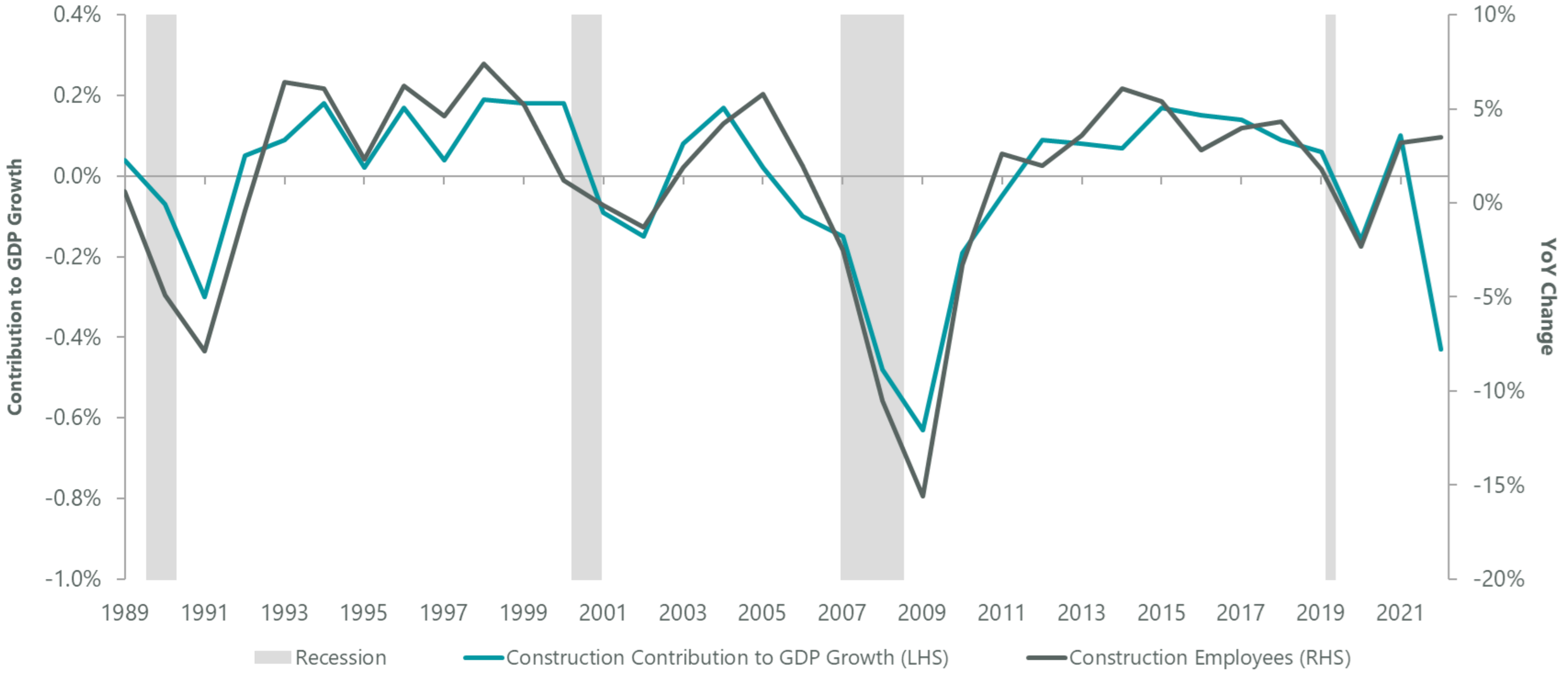
Start of Persistent* Hike Cycle	Start of Recession	Recession Within 3.5 Years?	Length from Start of Hiking Cycle (Months)
Nov. 1958	April 1960	Yes	17
July 1963	Dec. 1969	No	76
Nov. 1968	Dec. 1969	Yes	12
Jan. 1973	Nov. 1973	Yes	9
Aug. 1977	Jan. 1980	Yes	29
Aug. 1980	July 1981	Yes	11
March 1984	July 1990	No	75
March 1988	July 1990	Yes	27
Feb. 1994	March 2001	No	85
June 1999	March 2001	Yes	20
June 2004	Dec. 2007	Yes	41
Dec. 2016	Feb. 2020	Yes	38
		Average for All Hiking Cycles	**37**
		Average in Recessions	**23**

- **On average, a recession has historically begun a little over three years after a rate hike cycle gains momentum.**
- **In hard landing (recession) scenarios, this timeframe is condensed to just under two years.**

*Persistent Hike Cycle is when the vast majority of Fed rate hikes in a tightening cycle occur, and may not align with initial hike when there have been long delays between initial and subsequent hikes. Source: FactSet. Past performance is not a guarantee of future results.

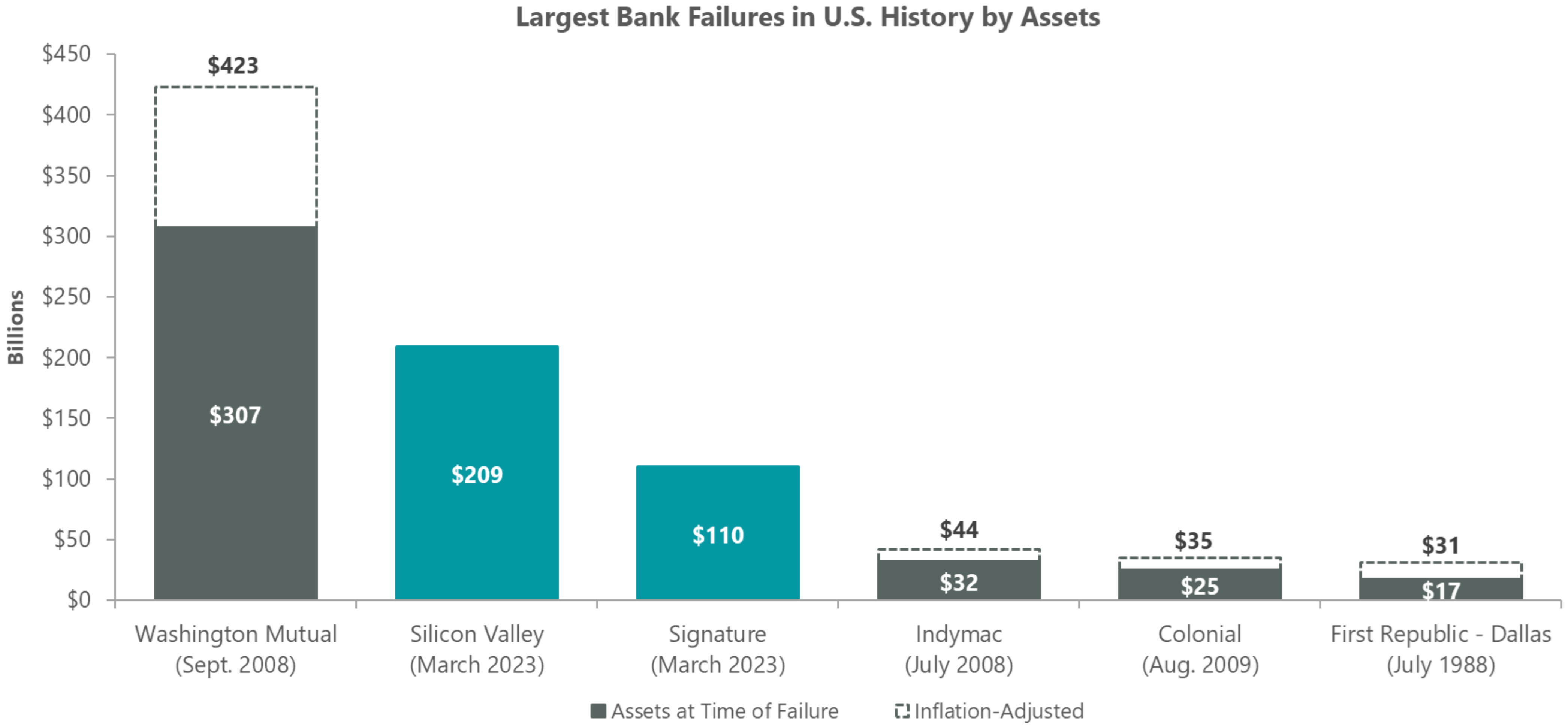
Construction Layoffs on the Horizon



- **Typically, employment in the construction industry closely tracks construction's contribution to GDP.**
- **This relationship has broken down recently given a backlog of completions. As the pipeline clears, history suggests construction labor should fall.**

Data as of Dec. 31, 2022, latest available as of March 31, 2023. Source: BEA, BLS, NBER. Past performance is not a guarantee of future results.

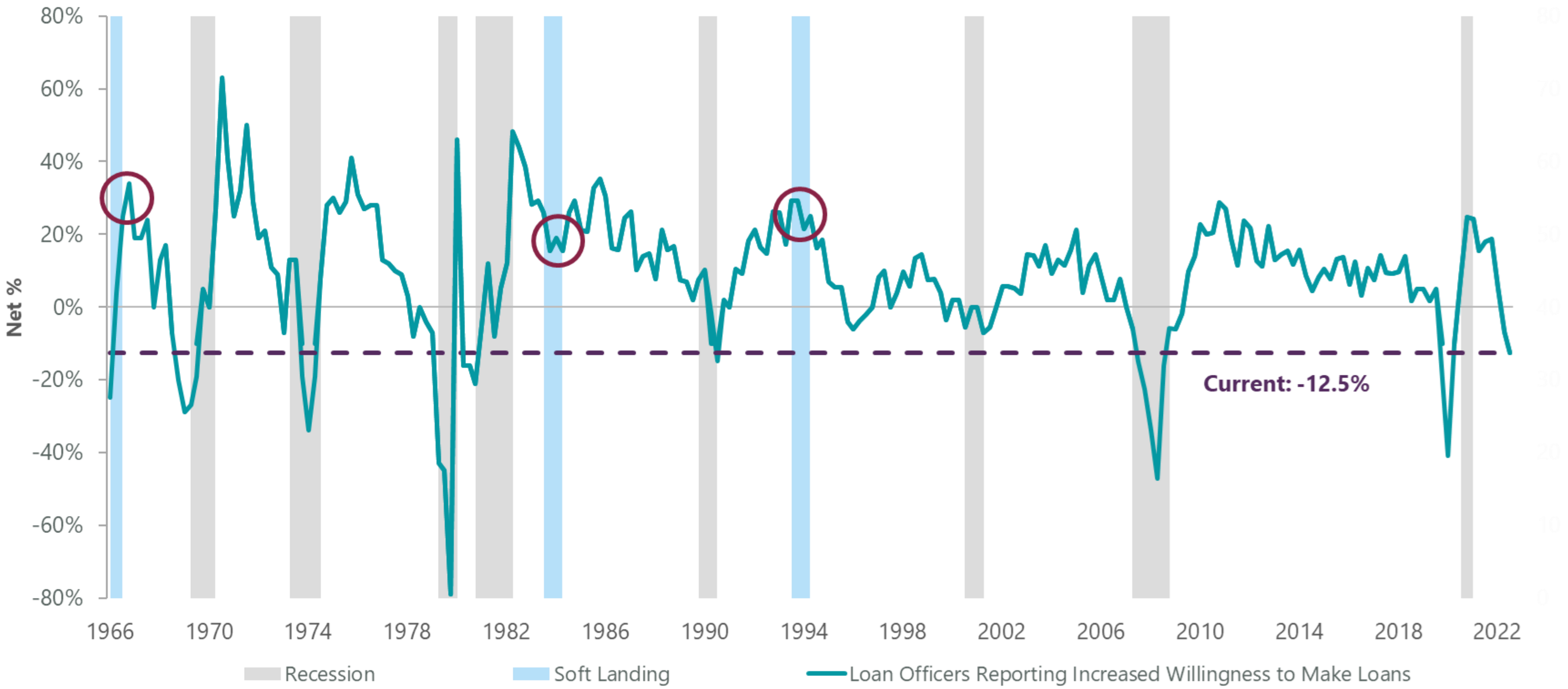
The Lagged Effects Are Here



- **Following a year of aggressive rate hikes, the first tangible sign of the lagged effects of tighter monetary policy has arrived.**

As of March 31, 2023. Source: BankRate, BLS and Bloomberg. Assets are rounded to nearest billion. Past performance is not a guarantee of future results.

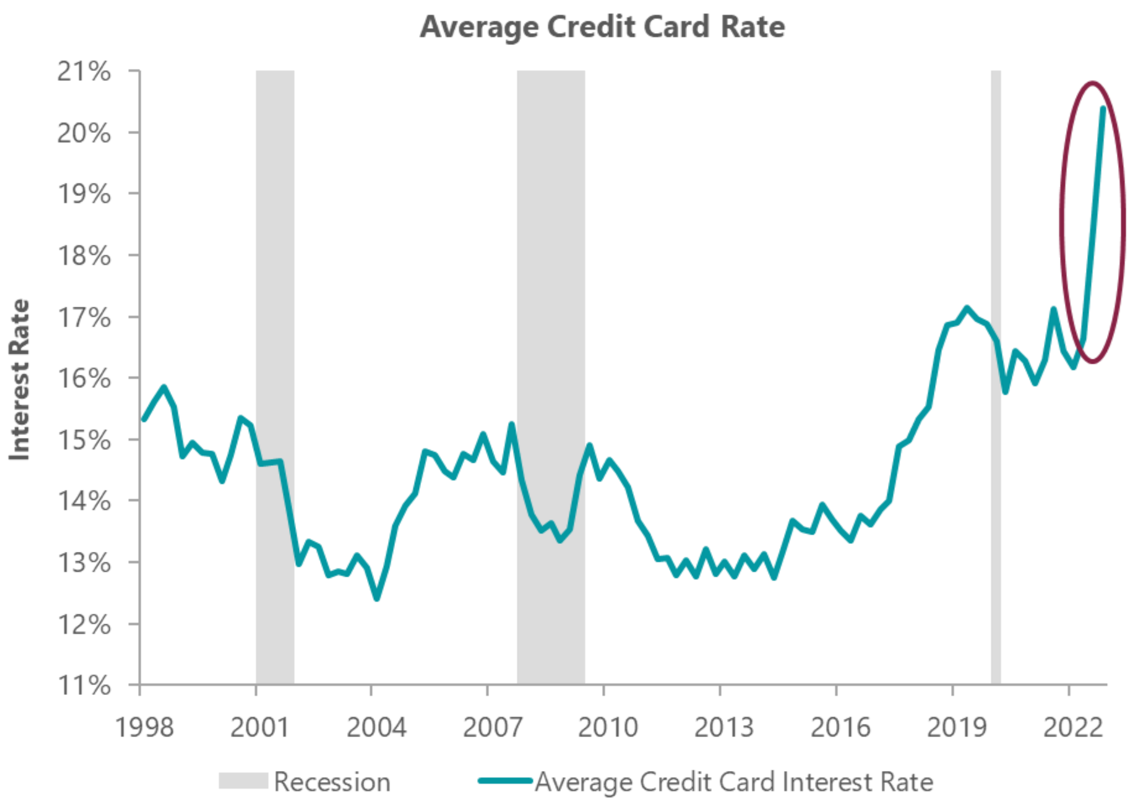
Lending Standards Retrenching

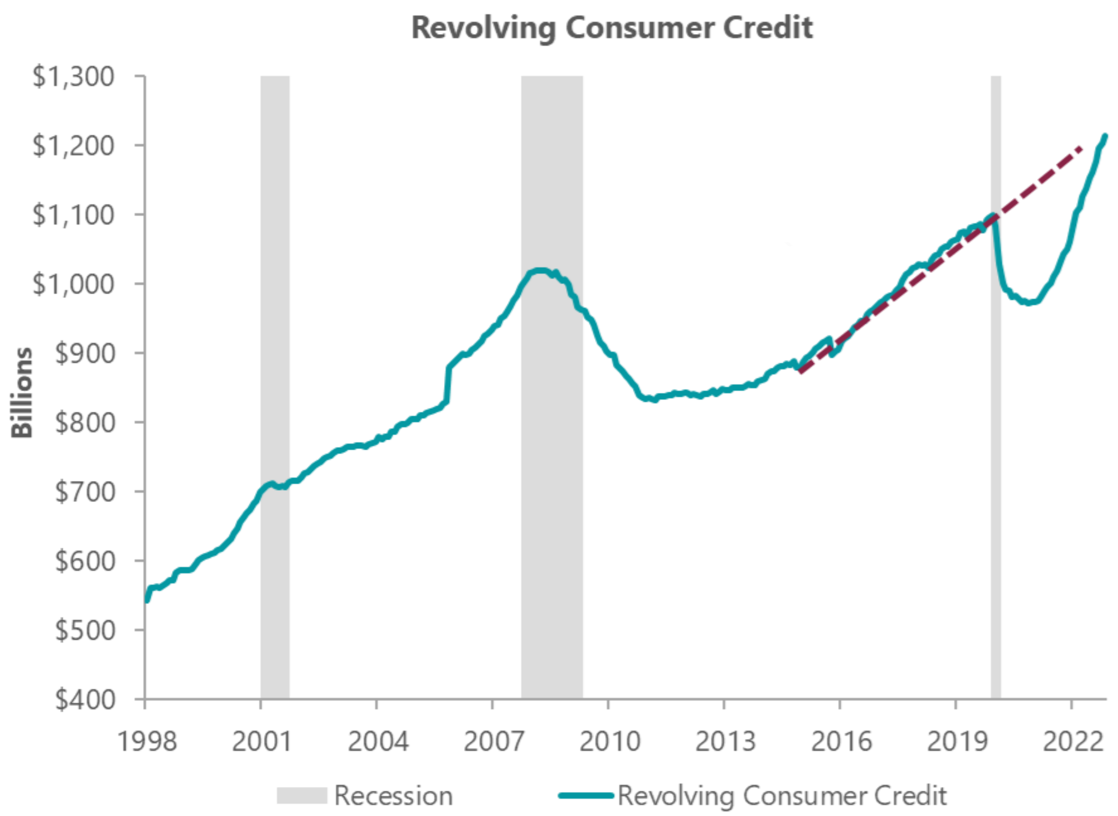


- **Lending standards tightening to the current degree has historically presaged a U.S. economic downturn.**
- **By contrast, soft landings have typically seen more accommodating credit conditions.**

Data as of Jan. 31, 2023, latest available as of March 31, 2023. Sources: Federal Reserve System, Factset. Past performance is not a guarantee of future results.

A Path to Slower Consumption?

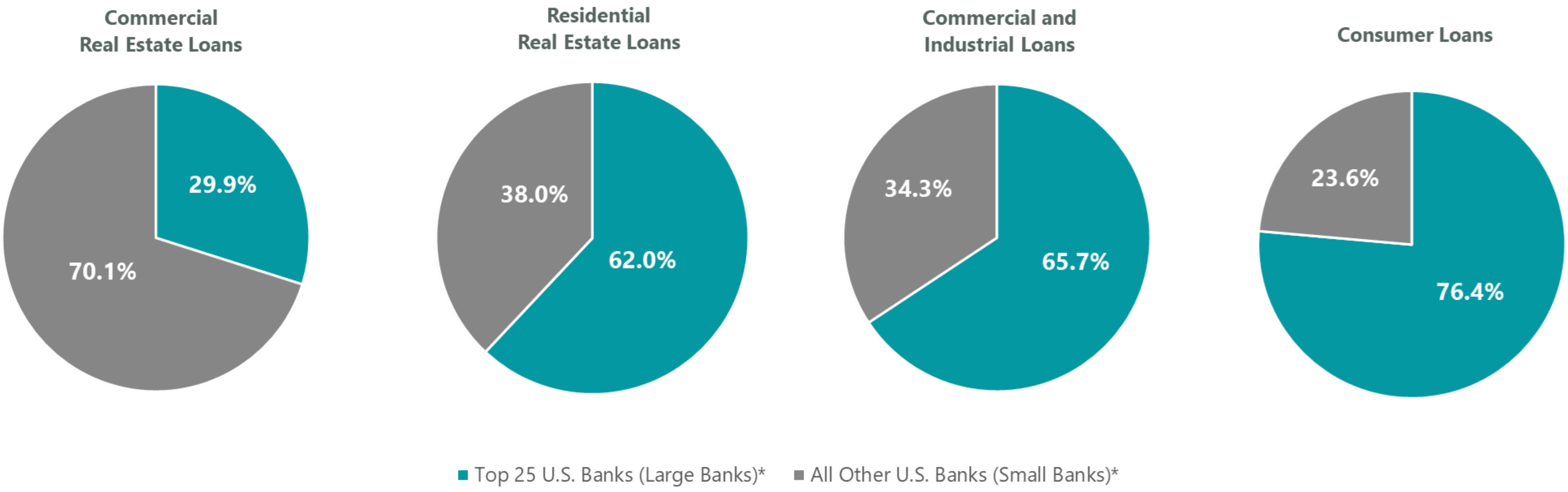




- **The normalization in credit card use has helped fuel consumption (and in turn inflation) even as accumulated savings wane and wage gains moderate.**
- **Spiking credit card rates and the return to pre-pandemic trends in borrowing suggests that debt-fueled consumption will be less of a boost going forward.**

Left chart: Data as of Dec. 31, 2022, latest available as of March 31, 2023. Right chart: Data as of Feb. 28, 2023, latest available as of March 31, 2023. Source: FactSet and Federal Reserve. Past performance is not a guarantee of future results.

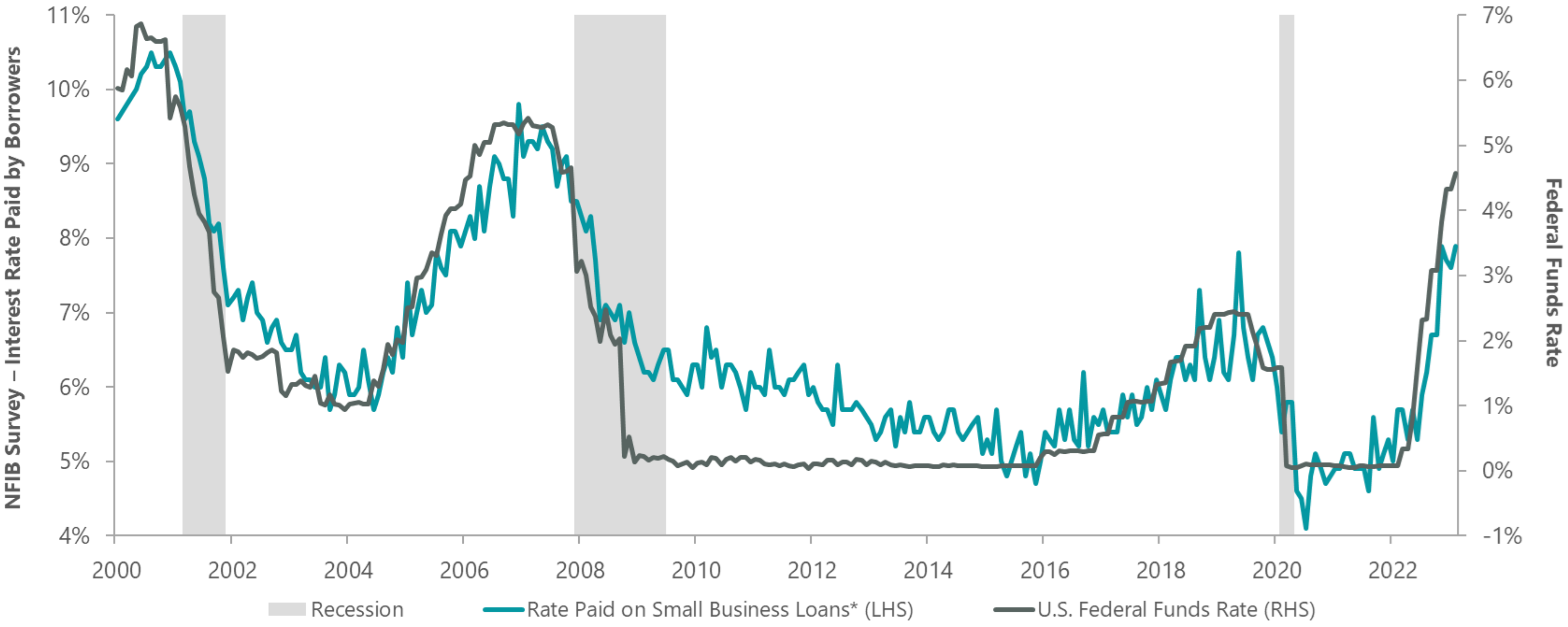
Small Banks Pack a Big Punch



- **Although small banks hold less than 30% of total banking assets, they play a disproportionate role in lending, accounting for 37% of the total and 57% of overall loan growth over the last year.**
- **With small banks under pressure, the overall availability of credit may be constrained.**

*Large banks comprise the top 25 U.S. commercial banks ranked by size of domestic assets – all of which are over $150 billion. Small banks comprise all other U.S. commercial banks with assets under $150 billion. Data as of March 17, 2023, latest available as of March 31, 2023. Source: Federal Reserve, FactSet. Past performance is not a guarantee of future results.

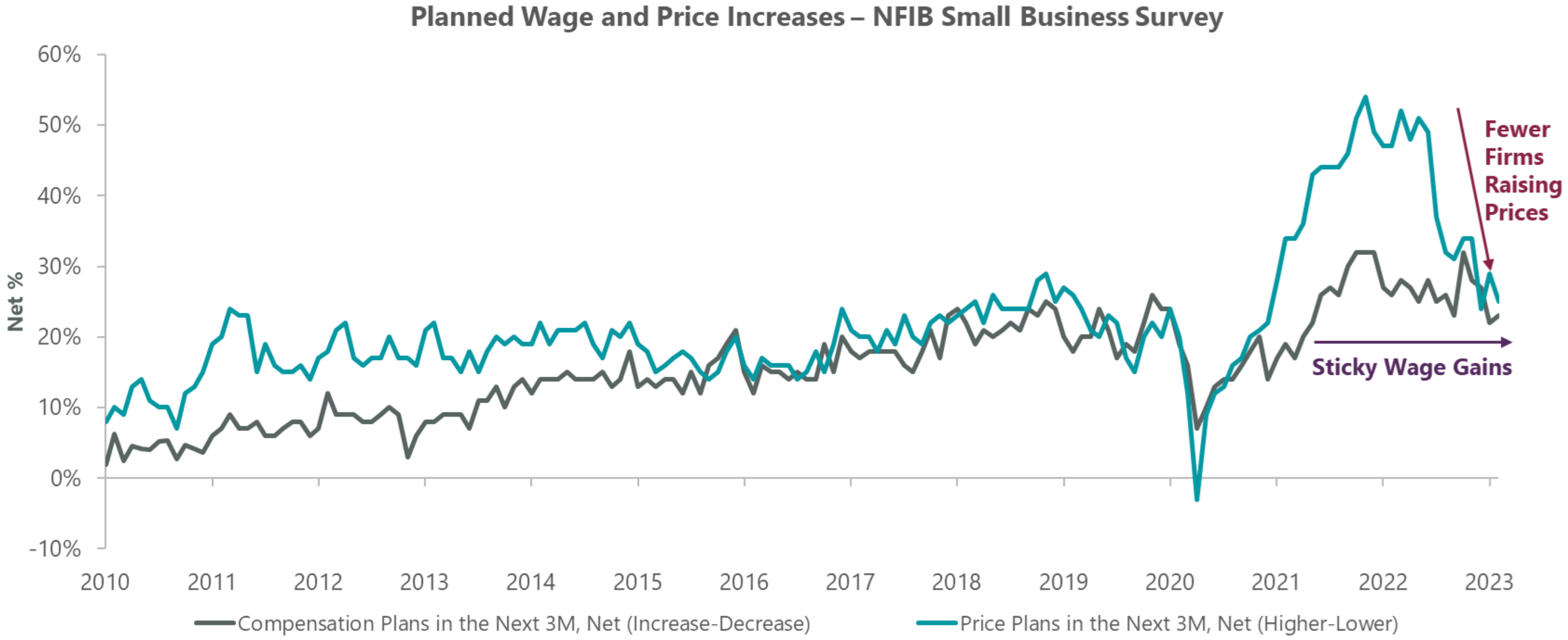
Hikes Pressuring Small Businesses



- **Small businesses have less access to capital markets than large companies, which means their borrowing costs are more closely tied to actual Fed rate hikes.**
- **By contrast, larger companies experience the effects of tightening earlier as financial markets price in rate hikes in advance.**

*Actual interest rate paid on short-term loans by borrowers, per NFIB survey. Data as of Feb. 28 2023, latest available as of March 31, 2023. Source: NFIB, Federal Reserve, FactSet.

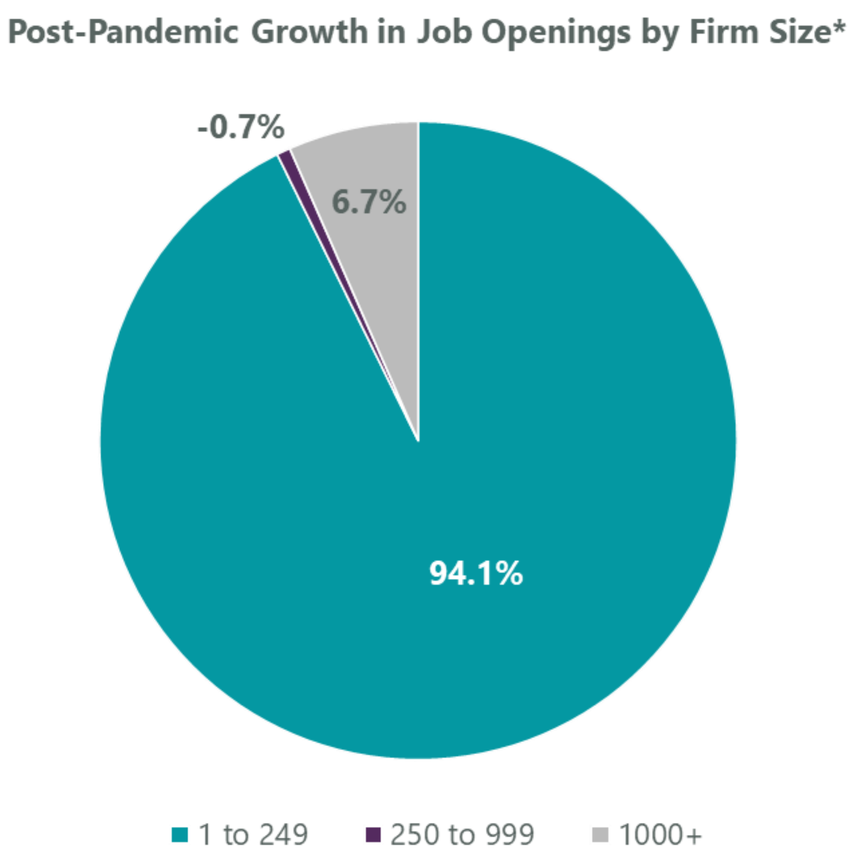
Small Business Pain Ahead

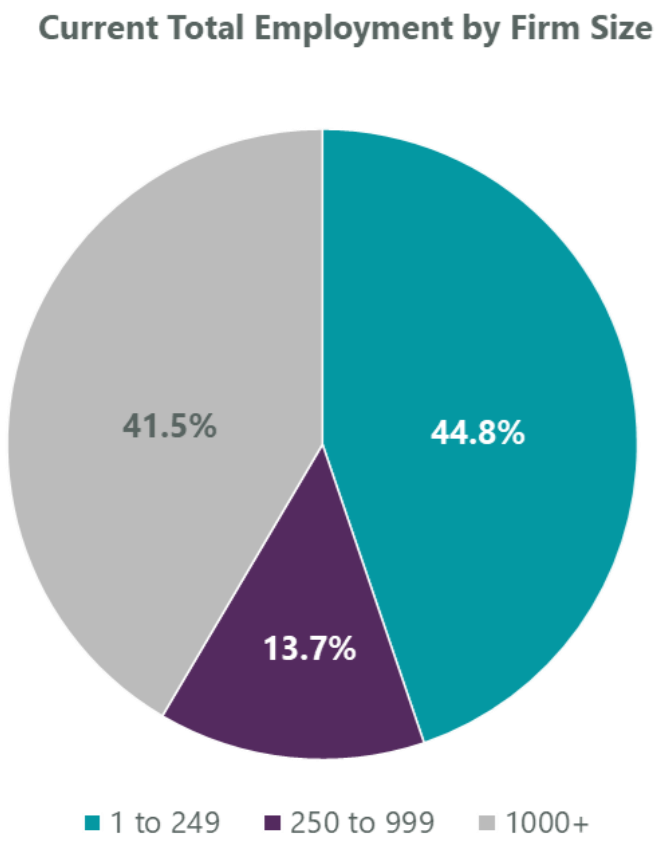


- Following a record high in the share of small businesses planning to raise prices last year, slower economic growth and lower inflation are leading many small businesses to calm price hikes into 2023.
- With wage gains holding steady, margins could come under pressure and lead to further cost-cutting measures including layoffs.

Data as of Feb. 28, 2023, latest available as of March 31, 2023. Source: FactSet, NFIB. Past performance is not a guarantee of future results.

Small Businesses Driving Labor Demand





- **Small businesses are generally seen as the engine of growth powering the U.S. economy.**
- **In the aftermath of the pandemic, small businesses have made up a disproportionate share of labor demand.**

*Post-pandemic growth is contribution to total change between Dec. 2019 and Feb. 2023 (preliminary data), latest data available as of March 31, 2023.
Right chart: Data as of March 2022, latest data available as of March 31, 2023. Source: BLS. Past performance is not a guarantee of future results.

What's The Fed Telling Us?

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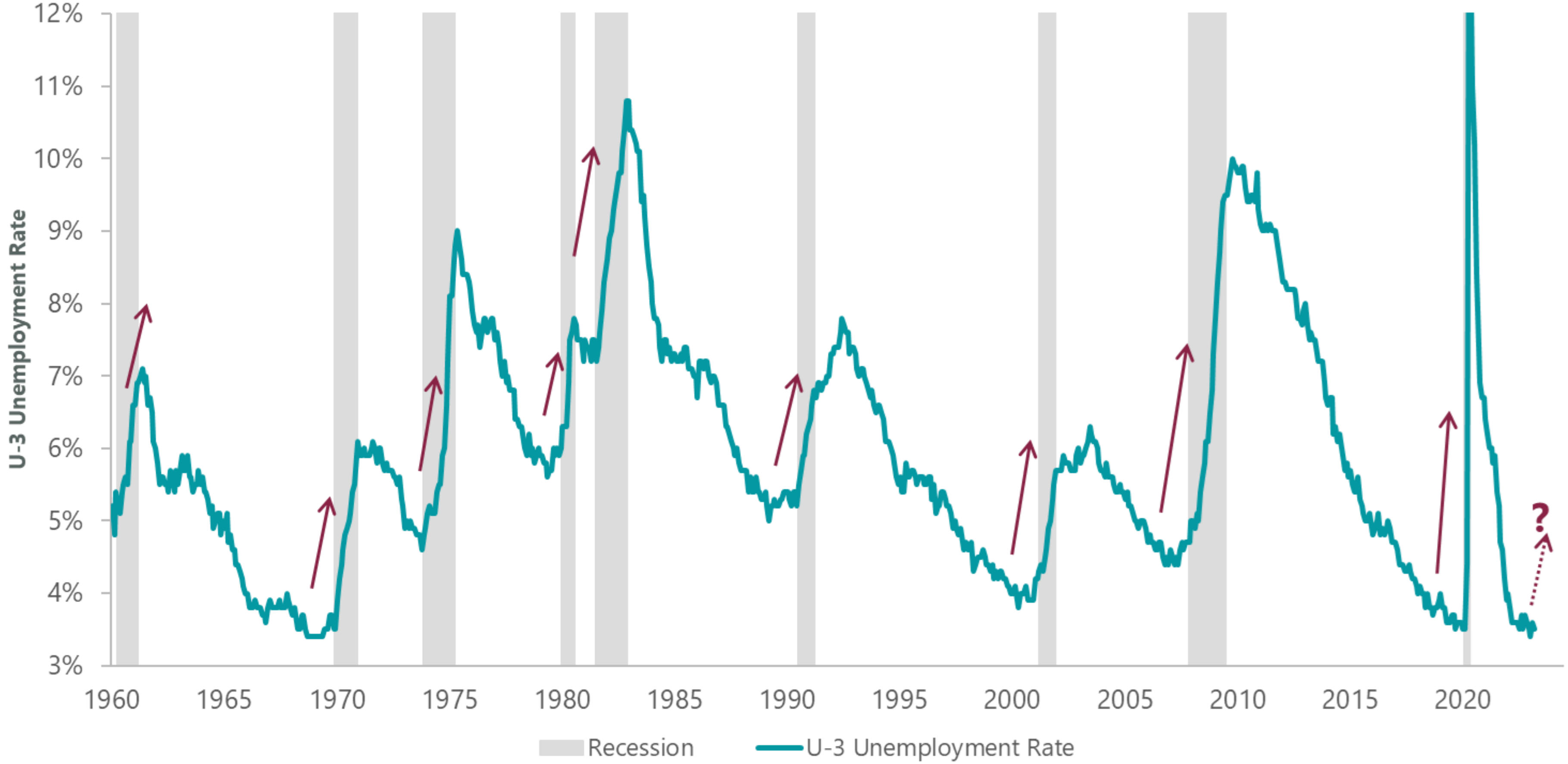
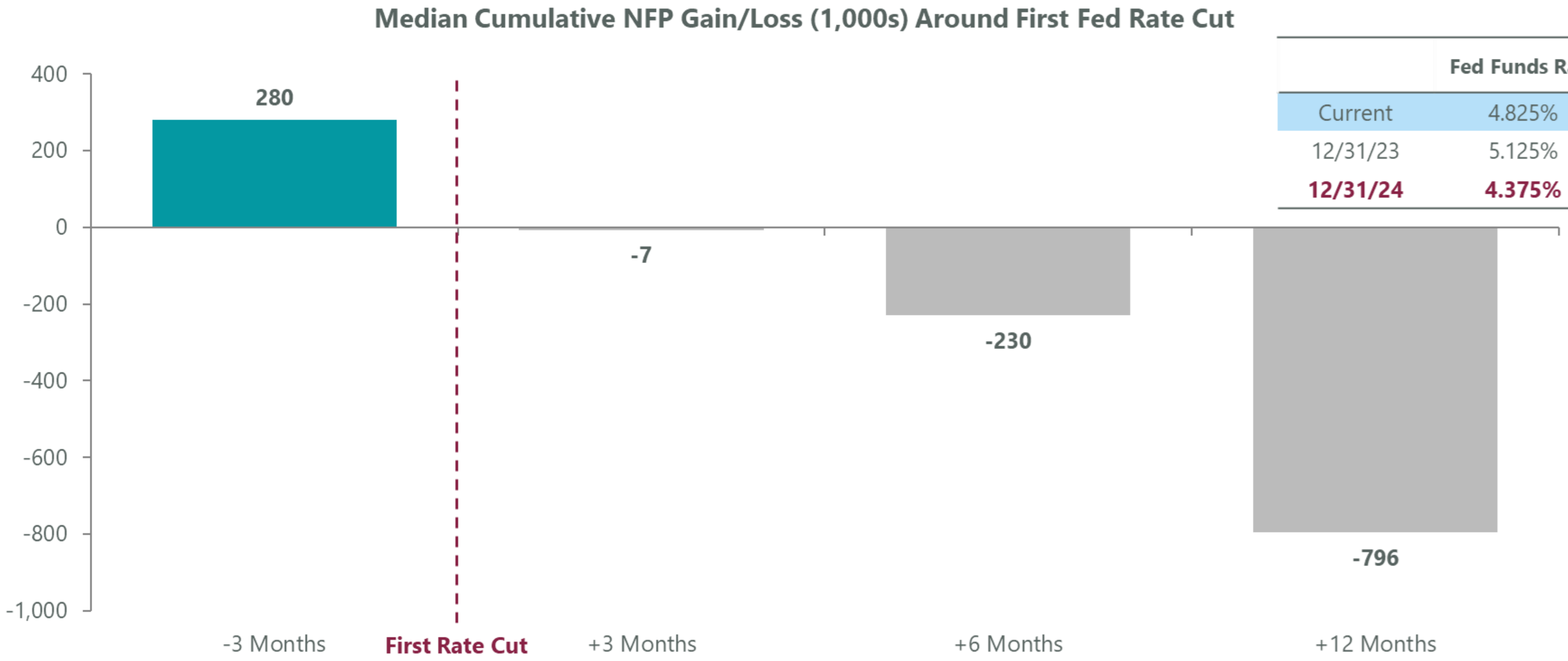


	Fed Projection
Current	3.5%
12/31/23	4.5%
12/31/24	4.6%
12/13/25	4.6%

- **Historically, an increase of 0.5% (or more) in the unemployment rate vs. the lows over the prior year has signaled a recession (the Sahm Rule).**
- **The Fed Dot Plot signals an expected 1.0% increase in the unemployment rate next year on top of the 0.1% rise that has already happened.**

The Sahm Rule refers to an increase in the 3-month moving average. Data as of March 31, 2023. Source: FactSet, BLS, Federal Reserve Bank of St. Louis.

The Fed Has Little Tolerance For Job Losses

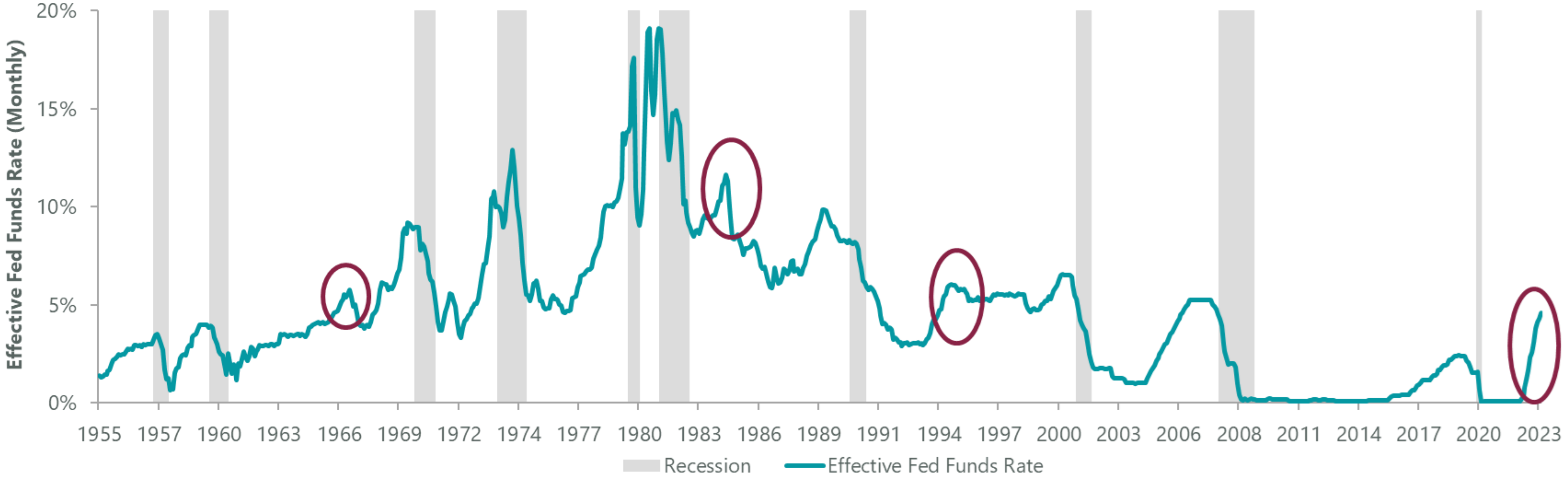


	Fed Funds Rate
Current	4.825%
12/31/23	5.125%
12/31/24	**4.375%**

- **Typically, the Fed anticipates layoff cycles (which tend to lag) and is quick to ease monetary policy as the labor market softens.**
- **The Fed Dot Plot implies 1.7 million job losses along with further rate hikes in the coming year. No cuts are expected until 2024 which is a departure from previous cycles.**

Data as of March 31, 2023. Source: FactSet, BLS. Past performance is not a guarantee of future results.

Don’t Make the Same Mistake Twice

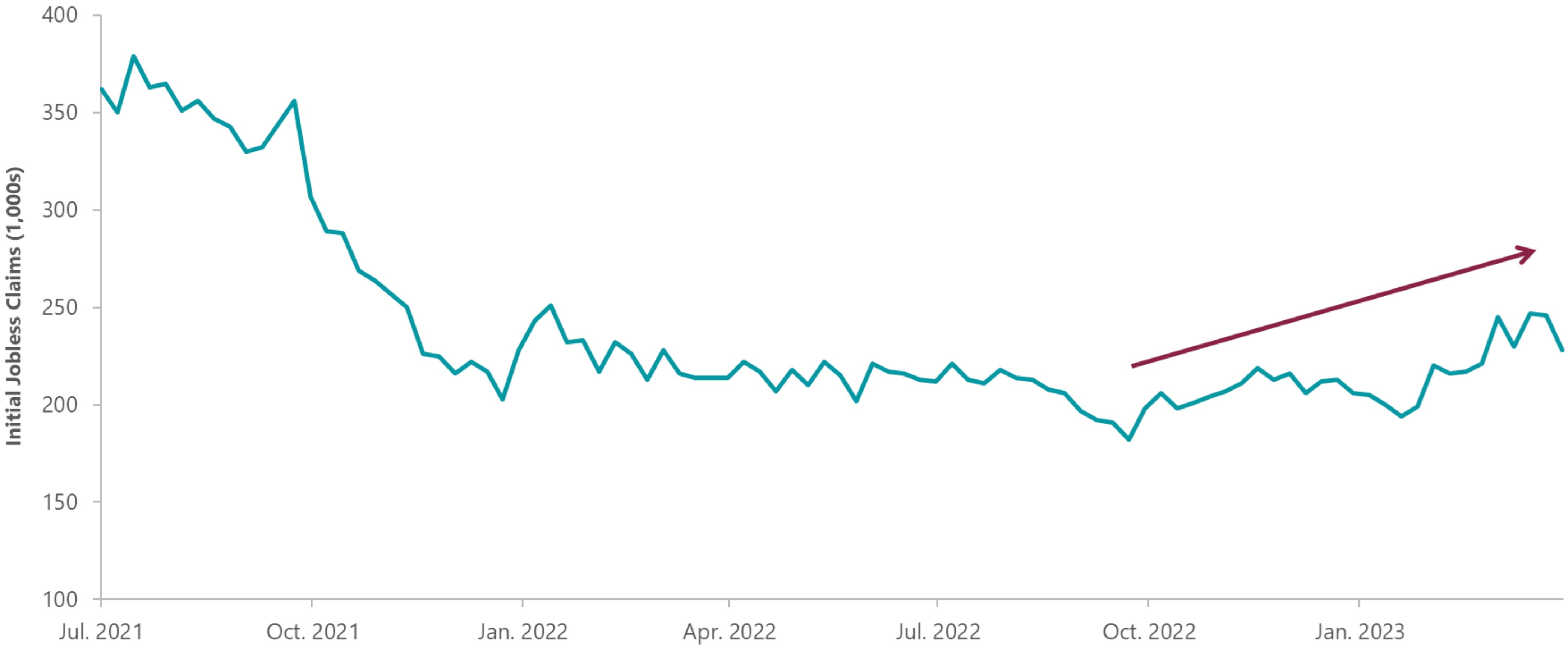


			Core Consumer Price Index YoY Percent Change			Unemployment Rate	
	Overall Recession Signal	Total Fed Rate Cut	Fed Pivot (or Current)	+12 Months	+36 Months	Fed Pivot (or Current)	Labor Market
December 1966	×	-2.0%	3.3%	3.8%	6.2%	3.8%	Tight
September 1984	⬆	-5.8%	5.1%	4.0%	4.3%	7.3%	Excess
July 1995	●	-0.8%	3.0%	2.7%	2.2%	5.7%	Slack
Current			***5.6%***			***3.5%***	

- **Historically, there have been 13 primary Fed tightening cycles, with 10 ending in a recession and three soft landings.**
- **With a tight labor market today similar to 1966, the Fed is likely wary of pivoting too early which could give way to a reacceleration of inflation.**

Data as of March 31, 2023. Source: BLS, Federal Reserve Bank of St. Louis, FactSet. 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.

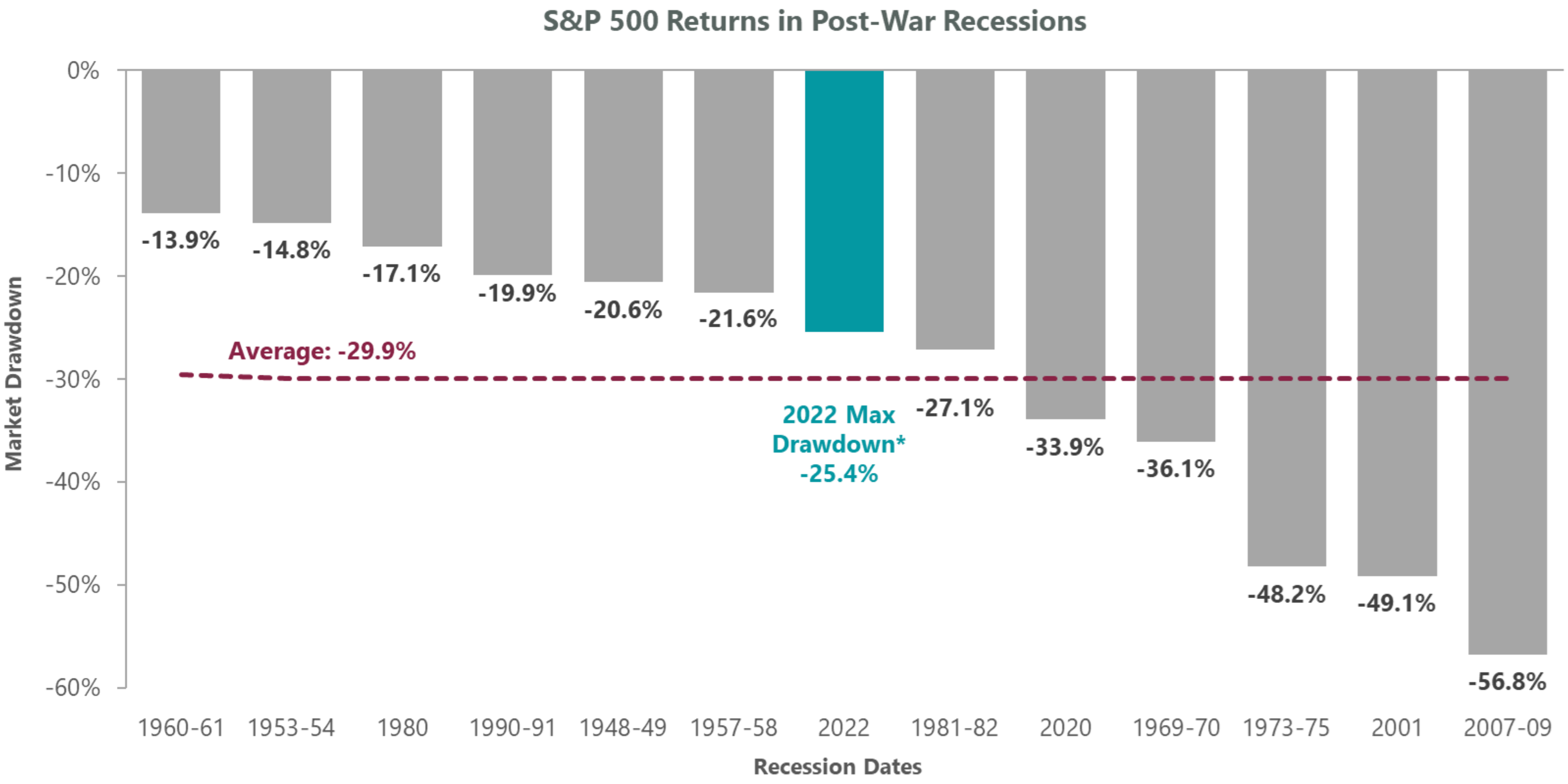
Canary in the Coal Mine



- **Jobless claims have been mostly steady since hitting 53-year lows in 2022, but appear to be climbing higher more recently.**
- **Initial jobless claims have been one of the best high-frequency indicators on the ClearBridge Recession Risk dashboard, making them particularly insightful into the health of this expansion.**

Data as of March 31, 2023. Source: Bloomberg, BLS.

Are We There Yet?



- **Since World War II, the average recessionary selloff has been -29.9%, a level the current selloff is approaching but has not yet reached.**

*Current reflects the 2022 Peak-Trough from market close on Jan. 3 to Oct. 12, 2022. Data as of Dec. 31, 2022. Source: FactSet, S&P, Shiller data, Haver, Deutsche Bank. 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.

Cart Before the Horse?

Recession Start	Recession End	Length (Months)	Market Low During Recession?	Distance from Recession Start (Months)	Distance from Recession End (Months)
Nov. 1948	Oct. 1949	11	Yes	6	-5
July 1953	May 1954	10	Yes	1	-9
Aug. 1957	April 1958	8	Yes	2	-6
April 1960	Feb. 1961	10	Yes	6	-4
Dec. 1969	Nov. 1970	11	Yes	5	-6
Nov. 1973	March 1975	16	Yes	10	-6
Jan. 1980	July 1980	6	Yes	2	-4
July 1981	Nov. 1982	16	Yes	12	-4
July 1990	March 1991	8	Yes	2	-6
March 2001	Nov. 2001	8	No	18	10
Dec. 2007	June 2009	18	Yes	14	-4
Feb. 2020	April 2020	2	Yes	1	-1
Average:		**10.3**		**6.6**	**-3.8**

- **Historically, market lows have come around the two-thirds mark during recessions.**
- **The strength of the labor market would suggest this point is not yet on the immediate horizon.**

Note: Distance from Recession Start and Distance from Recession End do not add to Length due to rounding. Source: S&P, FactSet, and Bloomberg. 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.

The Final Hurrah

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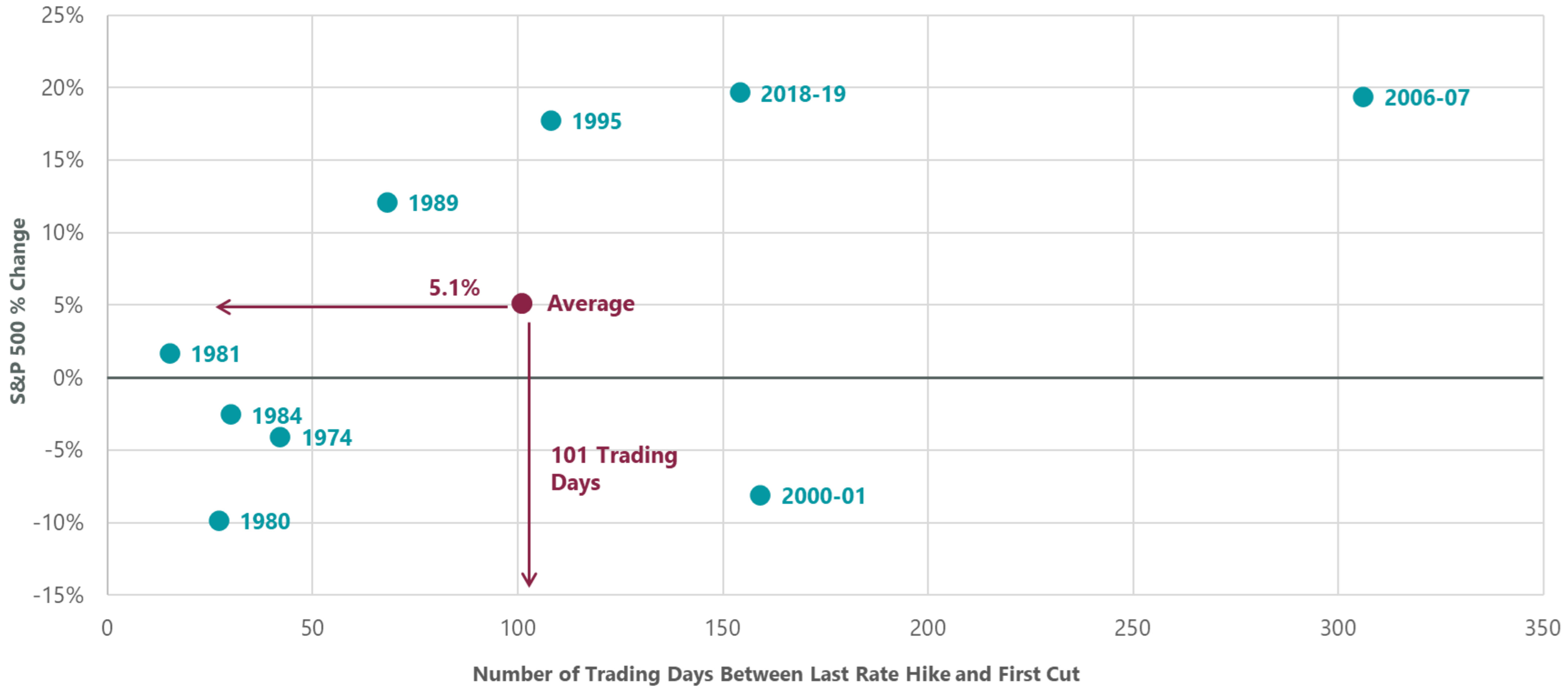

- On average, the market rallies 5% during the period between the final rate hike and the first cut.
- However, there has been a wide range of outcomes in terms of market return (and length of pause) depending on the particulars of each cycle.

Source: FactSet, Federal Reserve, S&P. 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.

Finding Fair Value

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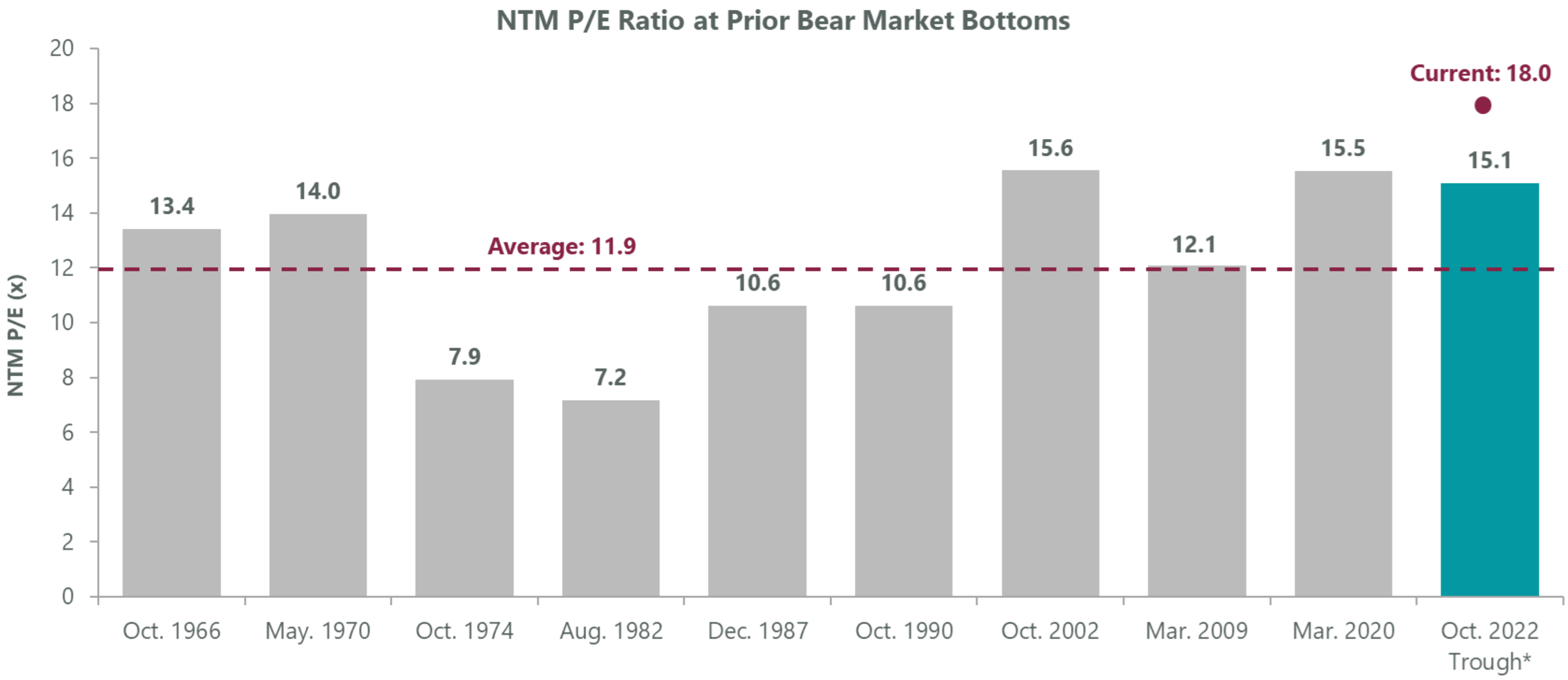

- **Although U.S. equities have derated from greater than 21x, they are still well above the average multiple seen at prior bear market troughs.**
- **Over the last 20 years, major market lows have tended to occur at loftier valuations (14.4x) relative to history, perhaps a function of lower (discount) rates.**

*Trough at Oct. 12, 2022. Note: Chart uses monthly NTM P/E ratios on the S&P 500 Index since 1964. Data as of March 31, 2023. Source: Federal Reserve, Standard & Poor's, FactSet, Credit Suisse. 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.

What's the Path for Earnings?

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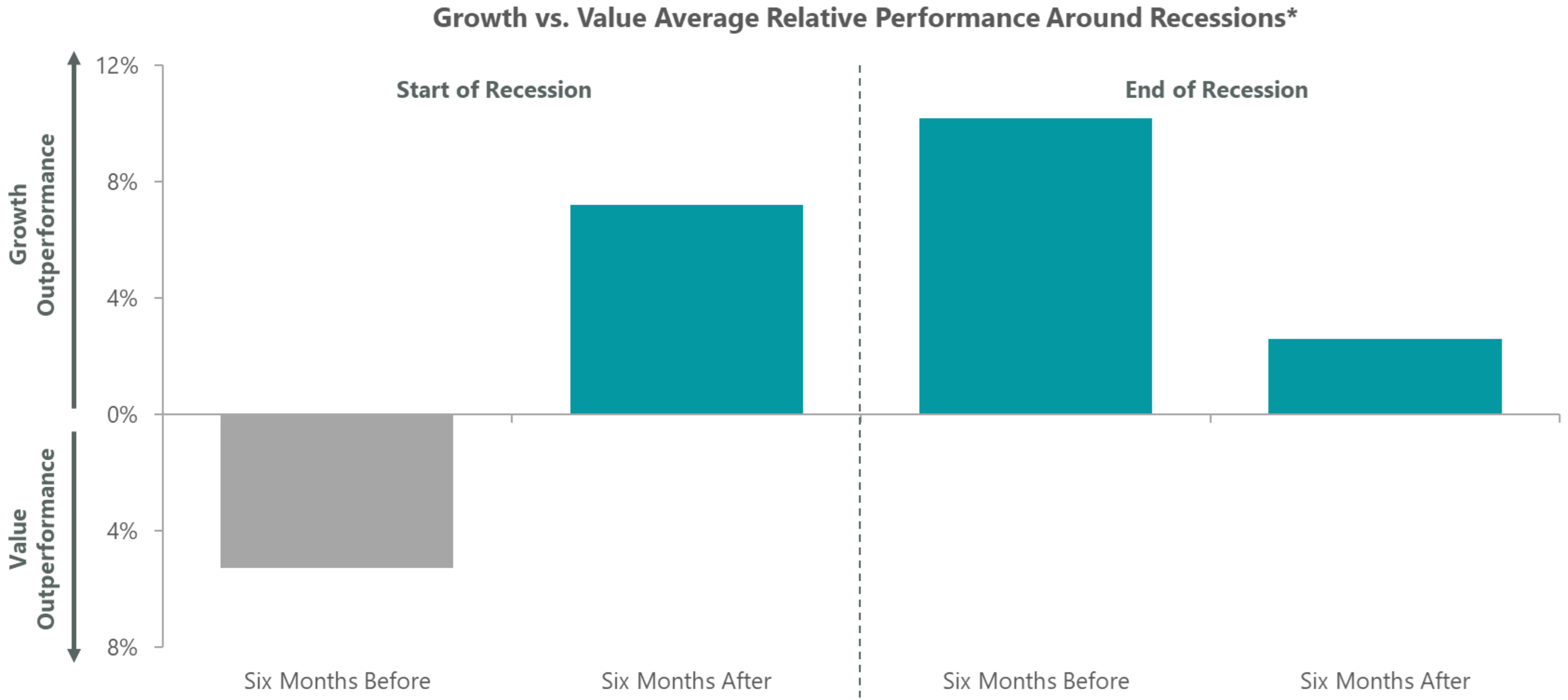
NTM EPS Behavior

Market Peak	EPS Peak	# of Days	Market Trough	EPS Trough	# of Days	EPS Peak – Trough	Market Peak – Trough
Recessions							
3/24/2000	8/7/2000	136	10/9/2002	12/17/2001	-296	-17.5%	-49.1%
10/9/2007	11/1/2007	23	3/9/2009	5/8/2009	60	-39.3%	-56.8%
2/19/2020	1/30/2020	-20	3/23/2020	5/15/2020	53	-20.6%	-33.9%
Average GDP Recession:		46			-61	**-25.8%**	-46.6%
Non-Recessionary EPS Declines							
7/17/1998	9/29/1998	74	8/31/1998	1/4/1999	126	-2.6%	-19.3%
5/21/2014	10/7/2014	139	8/25/2015	2/6/2015	-200	-5.5%	-7.2%
11/3/2015	9/8/2015	-56	2/1/2016	3/1/2016	29	-3.2%	-13.3%
9/20/2018	12/6/2018	77	12/24/2018	2/1/2019	39	-2.3%	-19.8%
Average GDP Recession:		59			-2	**-3.4%**	-14.9%
Current*							
1/3/2022	***7/8/2022***	***186***	***10/12/2022***	***2/3/2023***	***114***	***-5.7%***	***-25.4%***

- **Earnings revisions have declined by -26% on average across the last three recessions.**
- **It is not uncommon for earnings estimates to bottom after market lows have occurred. Earnings estimates have only recently started to come down.**

*Current reflects the 2022 Peak-Trough from market close on Oct. 12, 2022 to Feb. 3, 2023. Data as of March 31, 2023. Source: S&P, FactSet, NBER, and Bloomberg. 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.

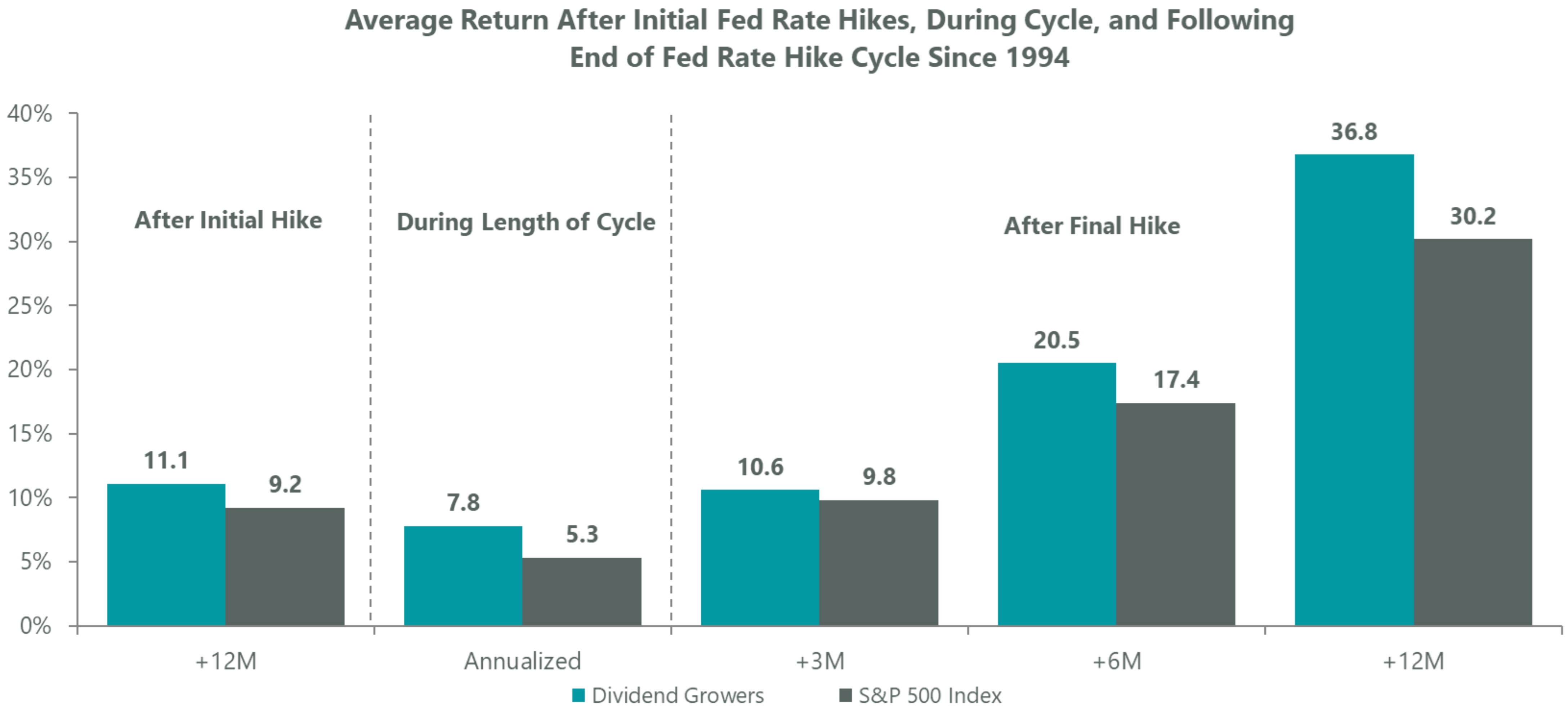
Leadership To and Through Recessions



- Typically, Value has outpaced Growth leading into a recession.
- However, leadership often flips with Growth picking up the baton once the recession is underway.

*Averages in the chart include the last three NBER recessions that occurred from March 15, 2001 through Nov. 16, 2001, Dec. 15, 2007 through June 15, 2009, and Feb. 15, 2020 through April 15, 2020. Indices used for each asset class include the following: Growth - Russell 1000 Growth; Value - Russell 1000 Value. Source: NBER, FactSet. Data as of March 31, 2023. 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.

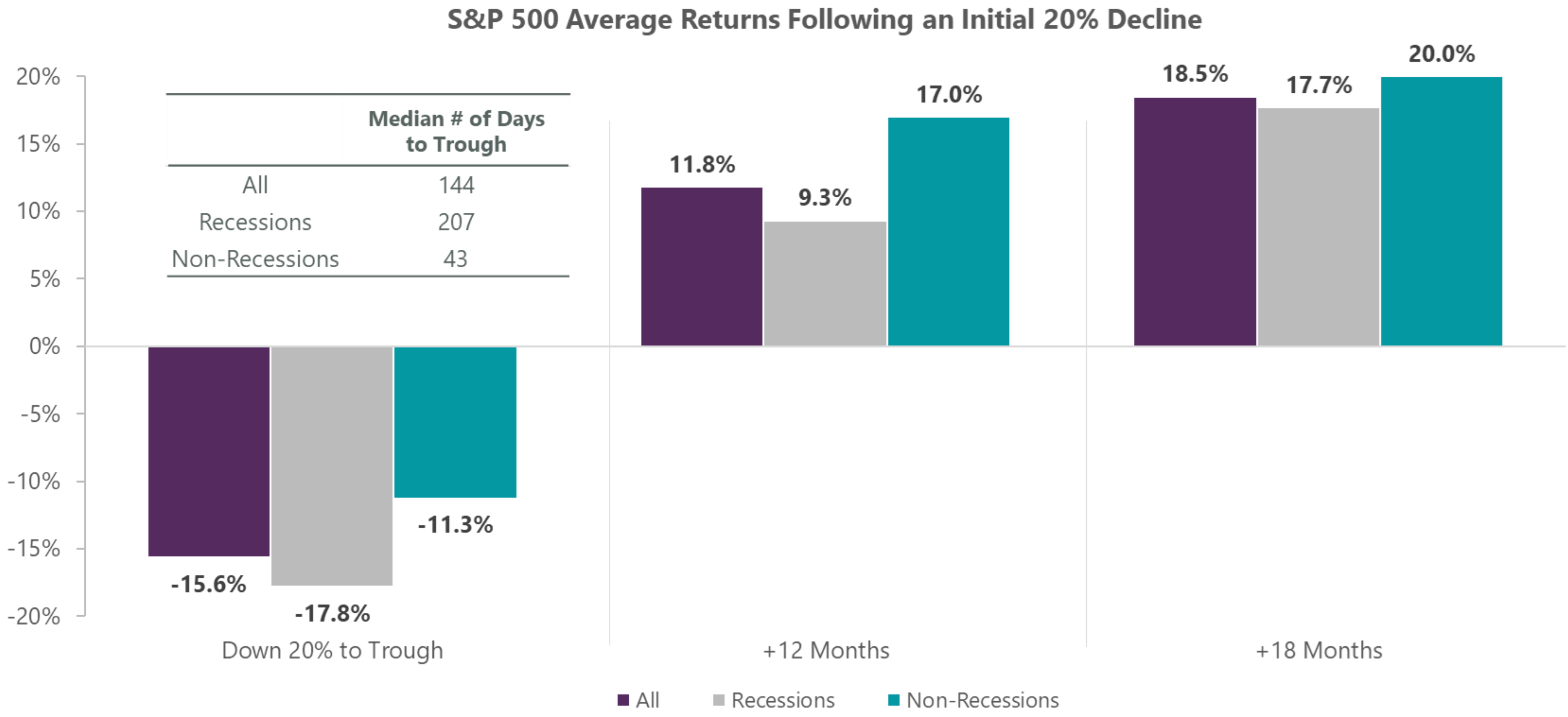
Dividend Growers Have Historically Dominated



Dividend growth has historically been a desirable trait for equities during and after Fed hiking cycles.

Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, FRB. Dividend Growth Screening Methodology: S&P 500 stocks screened each month end, no dividend cuts in the past five years, latest one-year dividend per share growth greater than the S&P 500, current dividend yield greater than the S&P 500, free cash flow yield greater than the dividend yield, dividend payout ratio lower than the S&P 500. 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.

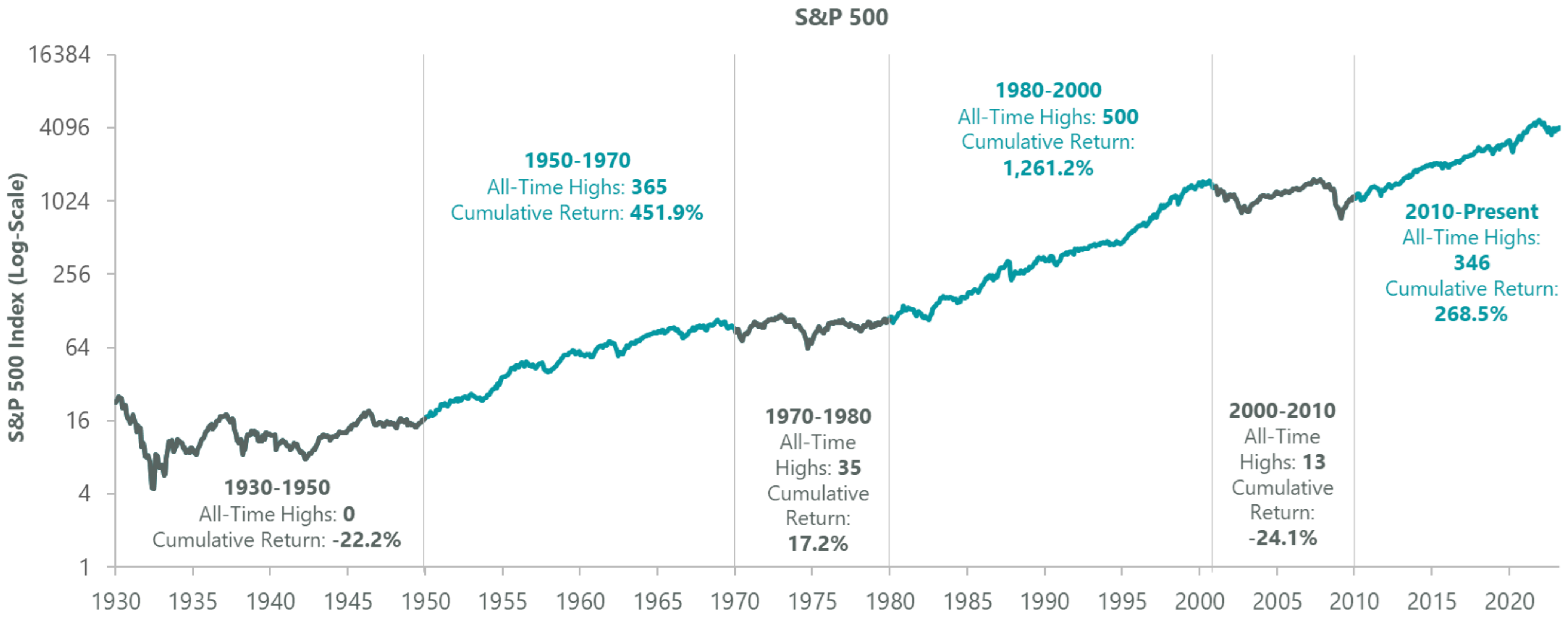
Bear Market Achieved, Good Entry Point?



- **Once a bear market (-20%) has occurred, markets typically continue to sell off with recessions experiencing larger drawdowns than non-recessions.**
- **However, patient investors have historically been rewarded for staying the course over the following year.**

Source: S&P, Factset, and NBER. 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.

New Secular Bull Market?



Secular Bear: Average Drawdown -46.1%
Secular Bull: Average Drawdown -26.1%

- **In the 12 months following an all-time high, stocks have historically been up 8.3% on average with positive returns 70% of the time.**

Secular bear market average drawdown includes selloff beginning September 1929. Data as of March 31, 2023. Source: Bloomberg, FactSet. 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.

International

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.

Global Valuations Attractive

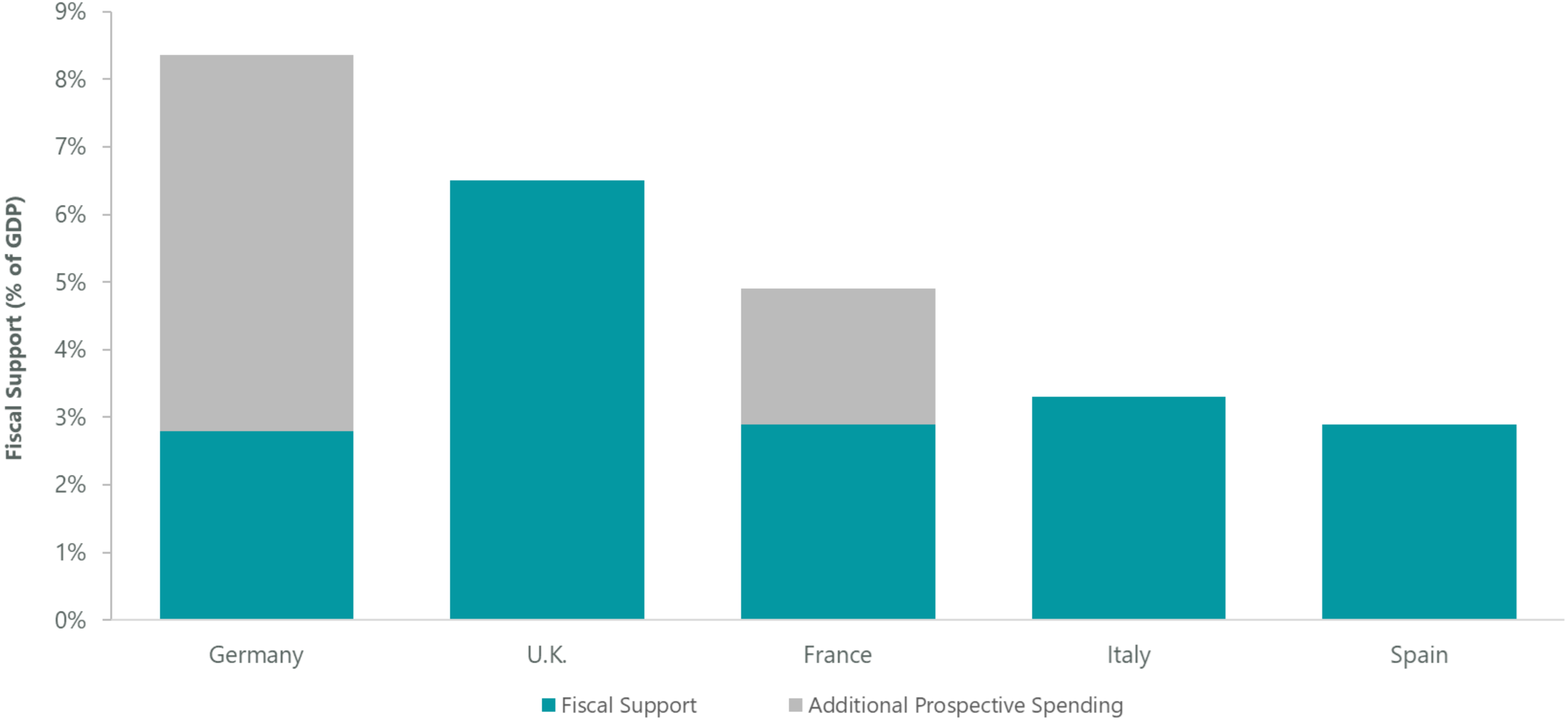
NTM P/E (x)

Country	Current	2021 High	Current vs. 2021 High	20-Year Median	Current vs. 20-Year Median
U.K.	10.6	14.6	-28%	12.8	-18%
Japan	13.3	16.6	-20%	14.8	-10%
Eurozone	13.2	17.9	-26%	13.6	-3%
Emerging Markets	12.3	16.4	-25%	12.7	-3%
World	14.9	18.9	-22%	14.5	3%
Switzerland	17.4	20.9	-17%	15.9	9%
U.S.	18.6	23.3	-20%	16.0	16%

- **Valuations across the globe have come in dramatically since their 2021 highs. The U.K. and Japan look particularly attractive on a valuation basis.**

Data as of March 31, 2023. Source: FactSet. 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.

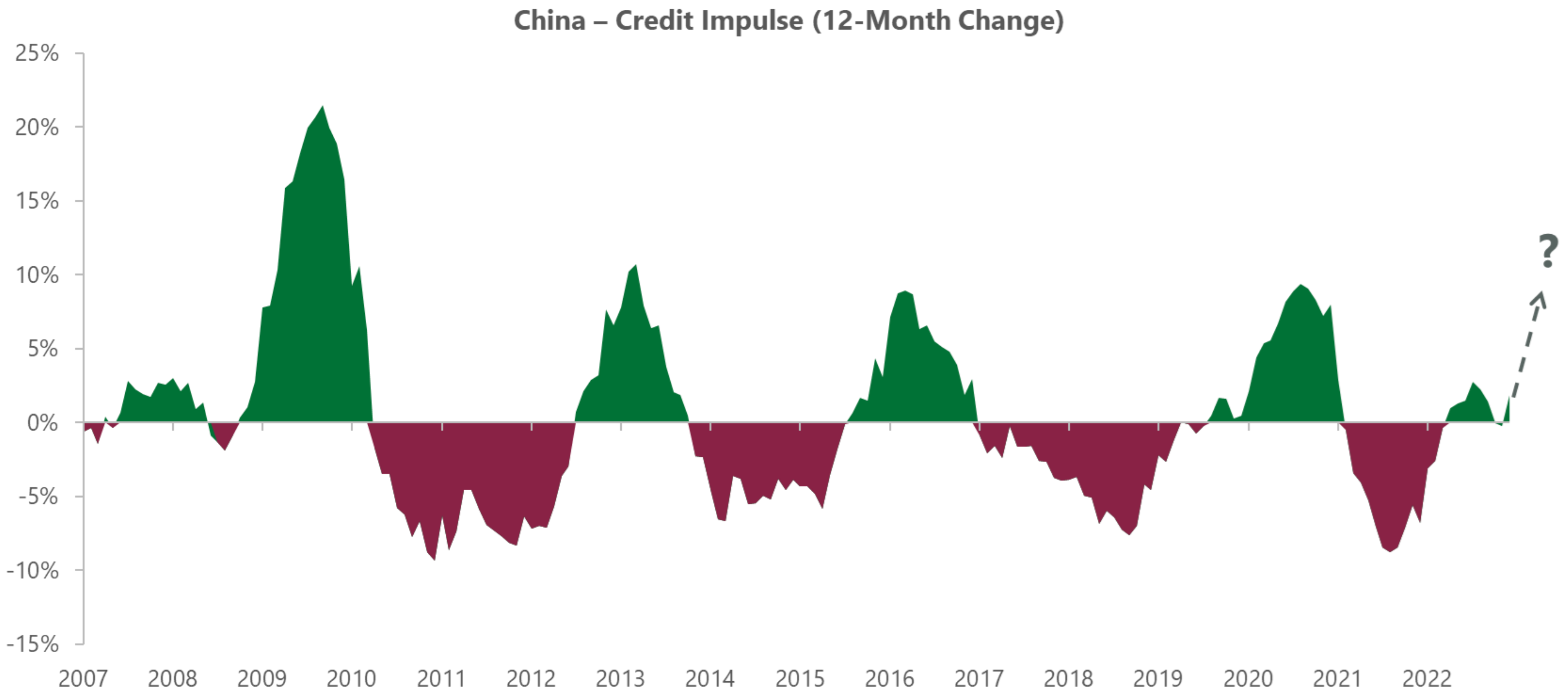
Fiscal Stimulus to the Rescue



- **In response to higher energy prices and slowing economic growth, European governments have stepped up their fiscal support meaningfully.**

As of Dec. 31, 2022. Source: Barclays Research, https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices.

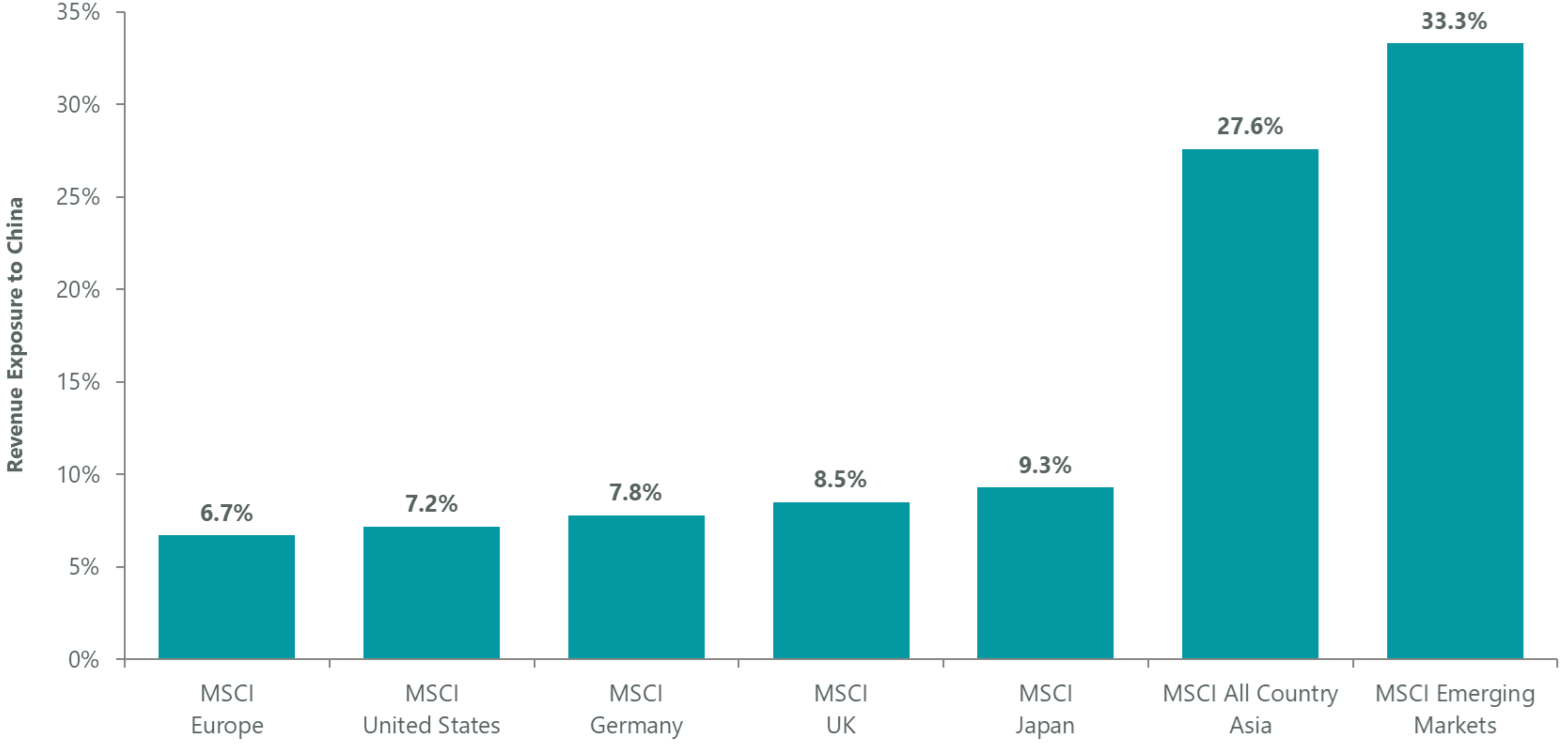
Chinese Credit Cycle Bottoming?



- The Chinese credit cycle is an important driver of domestic and global economic growth.
- Chinese policymakers have recently become more supportive as evidenced by the inflection higher in the credit impulse.

Data as of Feb. 28, 2023, latest available as of March 31, 2023. Source: Bloomberg.

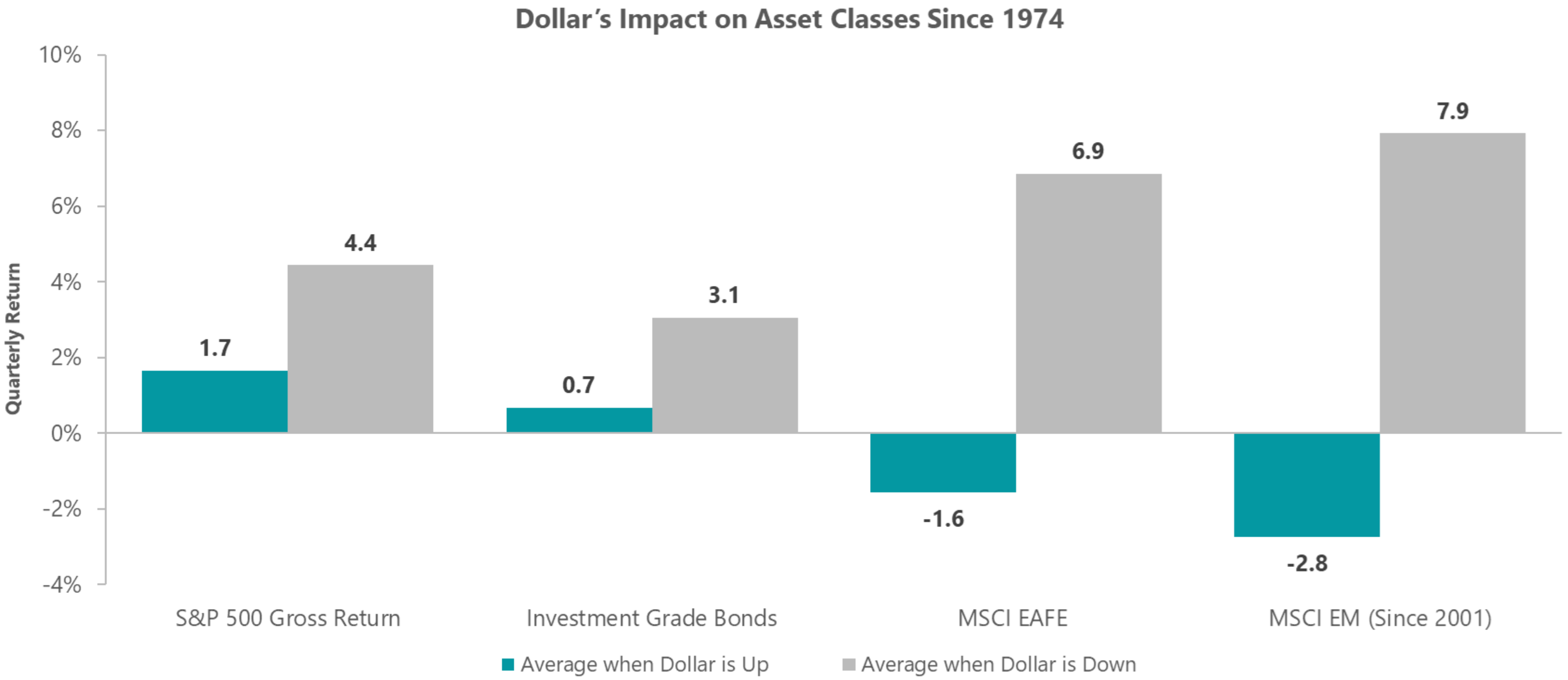
Who Benefits from China Reopening



▶ **With China abandoning zero-COVID policies, economic activity should accelerate in 2023.**

Data as of March 31, 2023. Source: FactSet. 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.

Weaker Dollar Supercharges Non-U.S. Stocks



International equities tend to outperform during periods of dollar weakness.

Data as of March 31, 2023. MSCI EAFE and MSCI EM are net returns; MSCI EM data starts in 2001. Investment Grade Bonds refers to the Bloomberg U.S. Corporate Investment Grade Bond Index. Source: FactSet. 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.

Biographies

Name and Position		Industry Experience	ClearBridge Tenure	Education, Experience and Professional Designations
	**Josh Jamner CFA** Vice President, Investment Strategy Analyst	14 years	Joined ClearBridge in 2017	• Member of the CFA Institute • RBC Capital Markets - Assistant Vice President, Associate Strategist - U.S. Equity • Bessemer Trust - Assistant Vice President, Client Portfolio Analyst • BA in Government from Colby College
	**Jeffrey Schulze CFA** Director, Investment Strategist	18 years	Joined ClearBridge in 2014	• Member of the CFA Institute • Lord Abbett & Co., LLC – Portfolio Specialist • BS in Finance from Rutgers University

Glossary of Terms

BEA: Bureau of Economic Analysis

Black Swan: An unlikely and unpredictable event with potentially extreme consequences for markets.

Bloomberg US Aggregate Bond Index: an unmanaged index of U.S. investment-grade fixed-income securities.

Bloomberg US Corporate Investment Grade Bond Index: an unmanaged index of U.S. investment-grade corporate bond securities.

Capex (Capital expenditures): corporate spending on productive assets (such as buildings, machinery and equipment, vehicles) intended to increase capacity or efficiency for more than one accounting period.

CPI (Consumer Price Index): measure of the average change in U.S. consumer prices over time in a fixed market basket of goods and services as determined by U.S. Bureau of Labor Statistics.

EPS (Earnings per Share): the portion of a company's profit allocated to each outstanding share of common stock.

FAANGM: Shorthand term for a group of leading technology stocks including Facebook, Apple, Amazon, Netflix, Google/Alphabet, and Microsoft.

GDP: Gross Domestic Product

GFC (Great Financial Crisis): the severe economic and market downturn experienced in 2007-2008.

Fed (Federal Reserve Board): the U.S. central bank, responsible for policies designed to promote full economic growth, full employment, and price stability.

LEI Index: Conference Board Leading Economic Indicators index.

Mortgage Bankers Association (MBA) Purchase Index: measure of relative change over time in mortgage applications for property purchases

MSCI All Country World Index: unmanaged index of large- and mid-cap stocks in developed and emerging markets.

MSCI EM Index: unmanaged index of large- and mid-cap stocks in 27 emerging market countries.

MSCI EAFE Index: unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

MSCI USA Index: unmanaged index of US large- and mid-cap equity securities.

NAREIT All-Equity REITS Total Return Index: free-float-adjusted market capitalization weighted index that includes all tax qualified REITS listed in the NYSE, AMEX and NASDAQ National Markets.

NFIB (National Federation of Independent Business): a U.S. small business advocacy association, representing over 350,000 small and independent business owners.

NFIB Small Business Optimism Index: measure of small business sentiment produced by the National Federation of Independent Business based on its monthly survey of small business owners.

Owners Equivalent Rent: the amount of rent that would have to be paid in order to substitute a currently owned house as a rental property.

PMI: Purchasing Manager’s Index

Ratio: Price/Earnings ratio

Quantitative easing (QE): Monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

Russell 1000 Growth Index: unmanaged index of large-cap stocks chosen for their growth orientation.

Russell 1000 Value Index: unmanaged index of large-cap stocks chosen for their value orientation.

Russell 2000 Index: unmanaged index of small-cap stocks.

Shibor: Shanghai Interbank Offered Rate

S&P MidCap 400 Index: unmanaged index of 400 US mid-cap stocks

S&P 400 Growth Index: unmanaged index of mid-cap stocks having higher price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 400 Value Index: unmanaged index of mid-cap stocks having lower price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 500 Growth Index: unmanaged index of large-cap stocks selected based on sales growth, the ratio of earnings change to price and momentum.

S&P 500 Value Index: unmanaged index large-cap stocks selected based on the ratios of book value, earnings, and sales to price.

S&P 600 Index: unmanaged index of 600 US small-cap stocks

S&P 600 Growth Index: unmanaged index of US small-cap growth stocks, selected based on sales growth, the ratio of earnings change to price, and momentum.

S&P 600 Value Index: unmanaged index of US small-cap value stocks, selected based on ratios of book value, earnings, and sales to price.

S&P 500 Index: Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

VIX: VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Yield Curve: Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

YoY: Year Over Year

U.S. Treasurys: Direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

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