



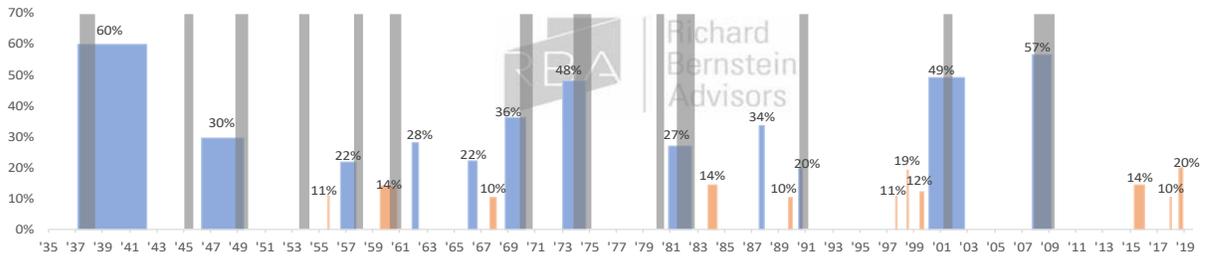
October 28th, 2019

Recession, recession, recession!

In an iconic episode of *The Brady Bunch*, that originally aired in 1971 (*Her Sister's Shadow*), middle sister Jan throws a jealous tantrum over being overshadowed by oldest sister Marcia: "Well all I hear all day long at school is how great Marcia is at this or how wonderful Marcia is at that...Marcia, Marcia, Marcia!" These days, all I hear all day long on the business networks is how the markets will go up because a recession is unlikely or that a bear market is coming because a recession is near...recession, recession, recession!

While an economic recession would not be good for stock markets, we think investors are obsessed with the wrong kind of recession. We've had several recessions not accompanied by bear markets (1945, 1953, 1960 and 1980) and several bear markets not accompanied by recessions (1962, 1966 and 1987). The chart below shows all the official recessions (grey shading) since 1935 along with all the US bear markets (blue bars) and 10%+ corrections (orange bars). There is clearly a relationship, but it's far from consistent.

US economic recessions (grey) vs. bear markets (blue) vs. 10%+ corrections (orange) since 1935

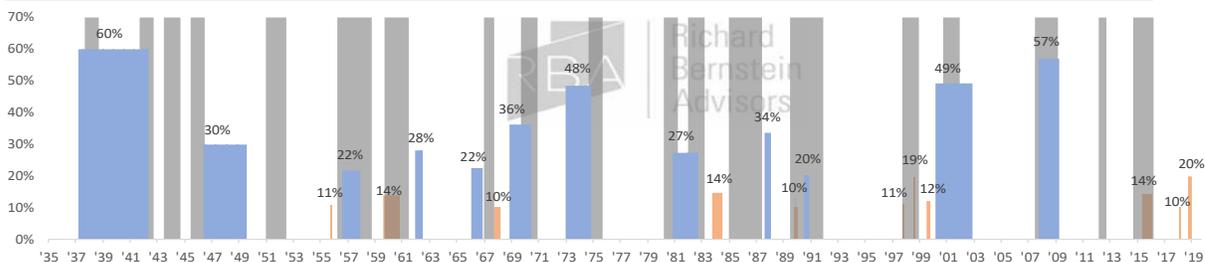


Source: Richard Bernstein Advisors LLC, Bloomberg, NBER.

Grey shading: US recessions; Blue bars: bear markets; Orange bars: non-bear market 10%+ corrections (magnitude denotes peak to trough market decline).

Now look at what happens when we replace economic recessions with profit recessions in the grey shading. Profit recessions and bear markets are not one-for-one either (mostly because of the role that sentiment and liquidity play), but they do seem to line up much better than in the first chart, and — critically — with more lead time. In fact, **you've never had a bear market that didn't occur within six months of a profit recession**, and until this cycle, you've never even had a 10%+ correction that didn't occur within seven months of a profit recession! This is a great illustration of why we focus on profit cycles instead of economic cycles. At RBA, we see a better than even chance of a profit recession in the coming quarters alongside indications of shrinking liquidity. That's generally not a good sign for markets, regardless of whether we enter an 'official' recession.

US profit recessions (grey) vs. bear markets (blue) vs. 10%+ corrections (orange) since 1935



Source: Richard Bernstein Advisors LLC, Bloomberg, S&P.

Grey shading: US profit recessions; Blue bars: bear markets; Orange bars: non-bear market 10%+ corrections (magnitude denotes peak to trough market decline). Profit recessions defined here as peak to trough trailing 12-month S&P 500 GAAP EPS declines where annual growth rate turned negative.

Let's pretend that you were an investor in the 1940s and you sold all your stocks because you correctly predicted the 1945 recession. Too bad for you because the US stock market returned 36% that year. Then let's say that once the recession ended in November 1945 you correctly predicted that there wouldn't be another recession for three years, so you decided to put all your money into the stock market. Well too bad again because the market peaked half a year later in May 1946 and didn't find a bottom until three years later by which time the market had fallen 30%.

Dan Suzuki, CFA
Portfolio Strategist

Please feel free to call your regional portfolio specialist with any questions:

Phone: 212 692 4088

Email: sales@rbadvisors.com

For more information About Dan Suzuki, please click [here](#).

Recent & Related articles:

[S&P 500® for the long run?](#)

[Sometimes defense is the best offense](#)

[Health Care for All](#)

[Time to hang up your CAPE?](#)

[Cheap cyclicals may be a warning sign](#)

[为什么中国? \(Why China?\)](#)

[Yield curve inversion cheat sheet](#)

Dan Suzuki is registered with Foreside Fund Services, LLC which is not affiliated with Richard Bernstein Advisors LLC or its affiliates.

Nothing contained herein constitutes tax, legal, insurance or investment advice, or the recommendation of or an offer to sell, or the solicitation of an offer to buy or invest in any investment product, vehicle, service or instrument. Such an offer or solicitation may only be made by delivery to a prospective investor of formal offering materials, including subscription or account documents or forms, which include detailed discussions of the terms of the respective product, vehicle, service or instrument, including the principal risk factors that might impact such a purchase or investment, and which should be reviewed carefully by any such investor before making the decision to invest. RBA information may include statements concerning financial market trends and/or individual stocks, and are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. The investment strategy and broad themes discussed herein may be unsuitable for investors depending on their specific investment objectives and financial situation. Information contained in the material has been obtained from sources believed to be reliable, but not guaranteed. You should note that the materials are provided "as is" without any express or implied warranties. **Past performance is not a guarantee of future results.** All investments involve a degree of risk, including the risk of loss. No part of RBA's materials may be reproduced in any form, or referred to in any other publication, without express written permission from RBA. Links to appearances and articles by Richard Bernstein, whether in the press, on television or otherwise, are provided for informational purposes only and in no way should be considered a recommendation of any particular investment product, vehicle, service or instrument or the rendering of investment advice, which must always be evaluated by a prospective investor in consultation with his or her own financial adviser and in light of his or her own circumstances, including the investor's investment horizon, appetite for risk, and ability to withstand a potential loss of some or all of an investment's value. Investing is subject to market risks. Investors acknowledge and accept the potential loss of some or all of an investment's value. Views represented are subject to change at the sole discretion of Richard Bernstein Advisors LLC. Richard Bernstein Advisors LLC does not undertake to advise you of any changes in the views expressed herein.