

ABOVE THE FRAY

Recession and Markets

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Against the backdrop of heightened political uncertainty, potential trade wars, and lower consumer sentiment, investors may have concerns about whether the US could tip into a recession. The National Bureau of Economic Research identifies recessions using backward-looking data, so we won't know we're in recession until after it's begun.

Luckily for investors, markets are forward-looking and generally react before we see slower economic growth show up in the macroeconomic data. This also means that expected stock returns are positive, even when the economic outlook is weak. This is borne out in the historical data. One dollar invested at the start of a recession saw positive returns after three years in 11 out of 12 past recessions. The average of the three-year returns after the start of a recession was 43.2%, which is nearly identical to the 41.8% average return of all three-year periods from 1947 to 2024.¹

Exhibit 1**Growth of a Dollar for US Stocks over a 3-Year Period Beginning from the First Month of Recession**

January 1947–March 2025

**Past performance is not a guarantee of future results. Actual returns may be lower.**

In USD. Each line shows the growth of \$1 for a hypothetical investment in the Fama/French Total US Market Research Index over the 36 months starting the month after the relevant recession start date. Data presented is hypothetical and assumes reinvestment of income and no transaction costs or taxes. Sample includes 16 US recessions as identified by the National Bureau of Economic Research (NBER) from January 1947 to December 2024. NBER defines recessions as starting at the peak of a business cycle. A business cycle is a description of the various stages of economic output. The chart is for illustrative purposes only and is not indicative of any investment. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Descriptions" for descriptions of Fama/French index data.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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INDEX DESCRIPTIONS

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: [Ken French website](#).

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

1. Source: Fama/French Total US Market Research Index. The sample start date is based on quarterly US gross domestic product data, a key measure used to identify changes in economic activity across the business cycle that is first available starting in 1947.

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