

RECESSION FEARS AND EQUITY ALLOCATIONS

2Q2022 Commentary

PZENA Investment Management

July 2022

For Financial Advisor Use Only

Timing your equity allocation around recessions is incredibly difficult. For one thing, you have to get the timing right (both the exit and the re-entry points). Plus, both the length of past recessions and the range of market drawdowns surrounding them have varied significantly (Figure 1).

Avoiding the initial sell-off during the economic downturn itself might save you from a loss in your equity book, but that requires great timing; that's notoriously hard to do. Drawdowns typically start before the official recessionary period begins, and markets typically bottom/infect before the economy recovers (13 out of 15 times).

Figure 1

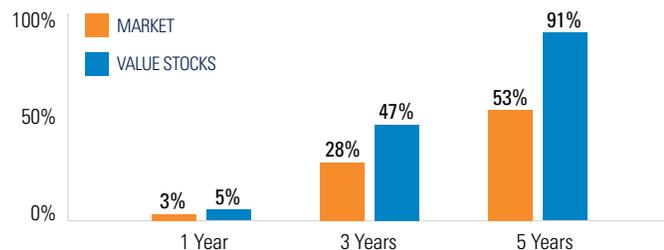
A Century's Worth of Recessions

	Recession
Avg. Return	-3%*
Worst Return	-78%*
Best Return	24%
Positive Periods	7/15
Longest Period	44 months*
Shortest Period	2 months
Avg. Duration	12.6 months*

*Excluding the Great Depression these figures would be +3%, -34%, 18 mos., and 10.4 mos., respectively.

Figure 2

Average Forward Returns From the Start of Recessions



To further complicate matters, 7 of the past 15 recessions have coincided with **positive** market returns.

History tells us the time to ensure you have a proper equity allocation is near the point of maximum pessimism—at some point **during** the economic downturn. That's when the markets tend to turn positive, and when value stocks, in particular, begin to outperform (Figure 2).

FOR A MORE IN-DEPTH ANALYSIS AND THE ON-GOING CASE FOR VALUE STOCKS, SEE OUR FULL 2Q22 COMMENTARY.

[Click Here For Q2 Commentary](#)

Source: Federal Reserve Bank of St. Louis, Kenneth R. French, Pzena analysis. The data is based on 15 US recessions from 1929 - 2020. The US universe is all NYSE, AMEX, and NASDAQ stocks defined by Kenneth R. French data library and excludes the smallest 30% of the universe based on aggregate market capitalization to remove the small cap effect. Past performance is not indicative of future returns. Returns could be reduced, or losses incurred, due to currency fluctuations. Does not represent any specific Pzena product or service.

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