

A Historical Look at Recessions and Stock Market Returns

It is natural for investors to be concerned with investment portfolio performance during recessionary times. This piece aims to provide insights into how the stock market has behaved in previous recessions.

Recession Defined

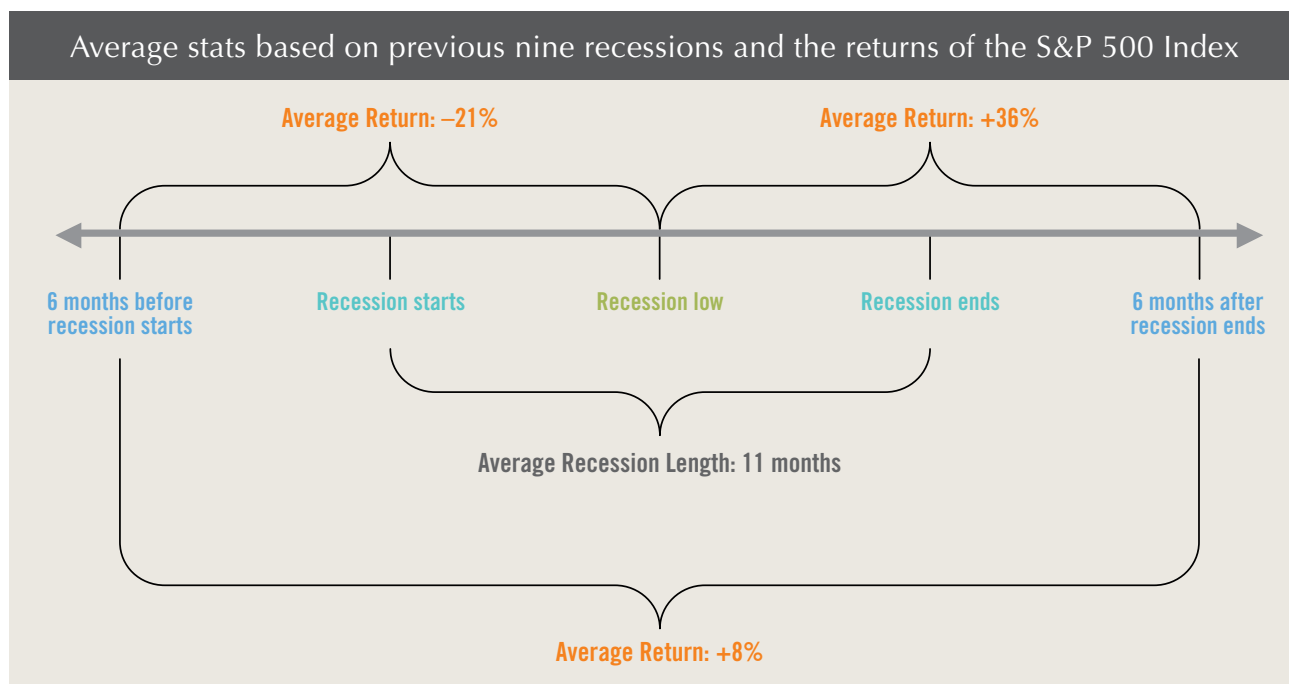
According to the National Bureau of Economic Research, a recession is “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough. Between trough and peak, the economy is in an expansion. Expansion is the normal state of the economy; most recessions are brief and they have been rare in recent decades.”

Investor Behavior

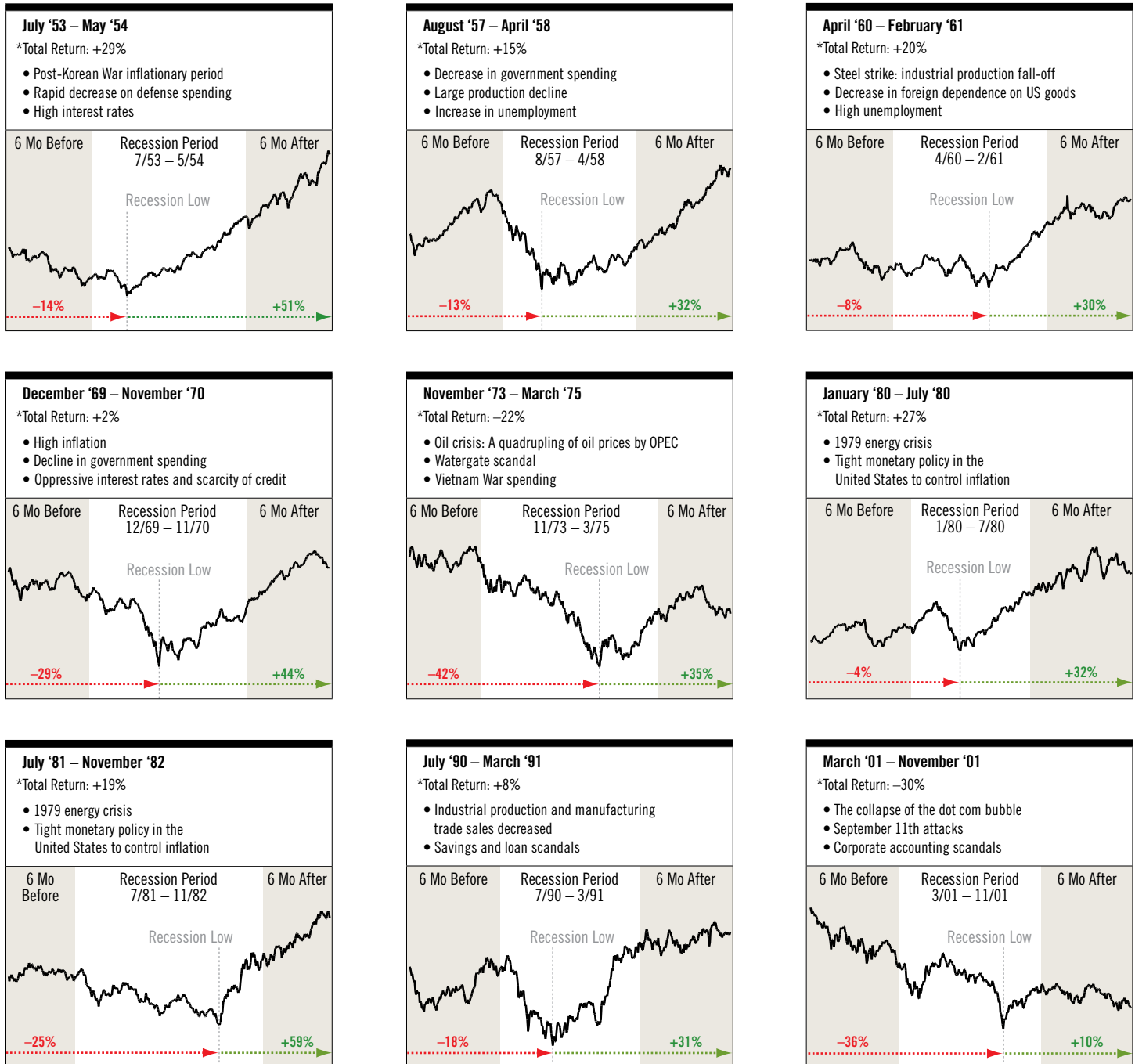
Recession fears and market volatility make investors skittish about investing, with many pulling money out of the stock market after experiencing much of the decline. What many may not be aware of is that, typically, stock market declines begin prior to the arrival of the recession and the rebound begins while the recession is still underway.

Performance Trends

We studied the nine recessionary periods as declared by the National Bureau of Economic Research. On average, as the market anticipates recession, there is a typical decline period that spans until the middle of the recession. Then, as the market discounts economic recovery, stock market returns tend to be positive. Thus, from the midpoint of the recession through six months after, the stock market has achieved positive returns.



As you can see from the charts below, the markets have behaved differently throughout each recessionary period. However, what each has in common is that the stock market's low point and recovery have occurred while the recession was still taking place. While it can be difficult to see at the time, historically the most pessimistic period has made for good long-term buying opportunities. Keep in mind, however, that past performance is no guarantee of future results.



*Total Return represents the cumulative return of the S&P 500 Index ranging from 6 months before the recession start through six months after the recession ends. The S&P 500 Index comprises 500 large, established, publicly traded stocks. Investors cannot invest directly in an index.

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