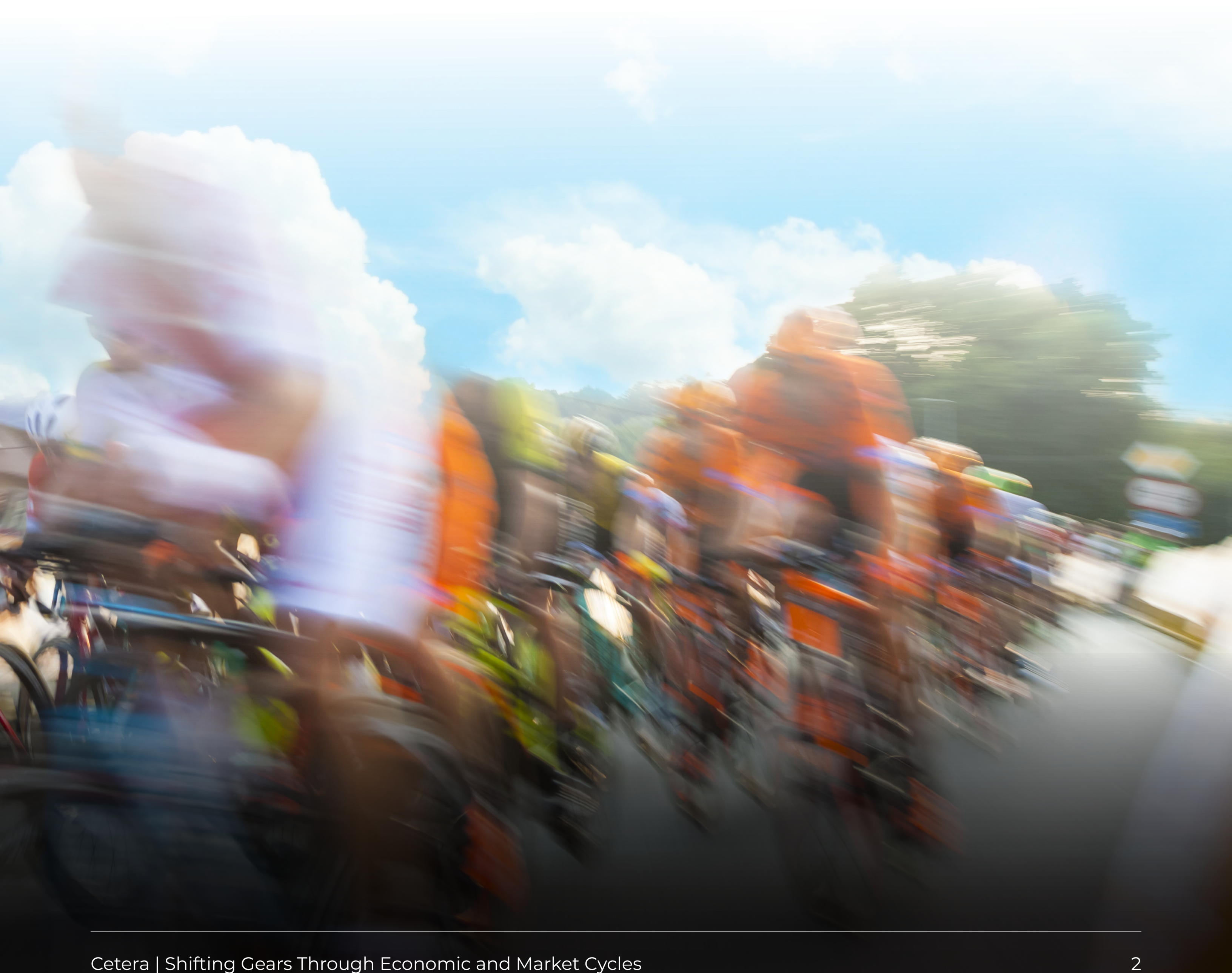
Cetera® Investment Management LLC

Shifting Gears Through Economic and Market Cycles

The Tour de France is the world's premier cycling race, challenging elite cyclists to the ultimate test of endurance and grit through 3,500 km (2,200 miles) of French landscape. Spanning three weeks each July, cyclists endure a mix of fast sprints, long-distance treks, and punishing mountain climbs in pursuit of the coveted yellow jersey.

Much like the Tour, the economy and stock market take on grueling journeys shaped by peaks, valleys, and unexpected turns, yet their cyclical nature remains unchanged. Since its inaugural race in 1903, the Tour de France has seen profound change, and so too have the forces that shape capital markets and the broader economy. In this commentary, we take a spin through economic and market cycles and offer insights into the current terrain.



The Economic Cycle

The economy cycles through four distinct phases: expansion, peak, recession, and trough. The expansion is like a steep climb following a recession, marked by rising profits and growing employment. The **peak** represents the summit, the economy's high point immediately before the inevitable descent into **recession** as the fatigued economy weakens. During a recession, the labor force shrinks and businesses cut back on investment as profits decline. The **trough** is the lowest point of the cycle, occurring just before the economy regains traction and climbs into expansion again.

Each economic cycle is unique, varying in length and speed. While the economy has evolved over time, the ups and downs of the business cycle are constant.

Wild Ride

One of the most transformative periods in U.S. history were the years following the Civil War, marking the end of slavery and the beginning of a renewed industrial boom that transformed the U.S. from a sleeping giant to an economic superpower. Coined the "Gilded Age", borrowing from a novel by Mark Twain and Charles Dudley Warner, the years 1865 to 1900 saw extraordinary economic growth fueled by a boom in steel, oil, rapid industrialization, and an expanding system of railroads that broadened commerce across the country.

As fortunes swelled for industry barons and economic transformation lifted the U.S. from emerging market status, this period was characterized by recurring boom and bust cycles. The economy in the late 1800s was more concentrated and financial markets had limited oversight, contributing to widespread speculative bubbles. There were nine recessions during the Gilded Age, including two major depressions – the Panics of 1873 and 1893. The economic engine was in high gear during these years, rapidly cycling between extreme highs and lows; a pattern that persisted into the 20th century, with frequent economic downturns continuing through the Great Depression in the 1930s.

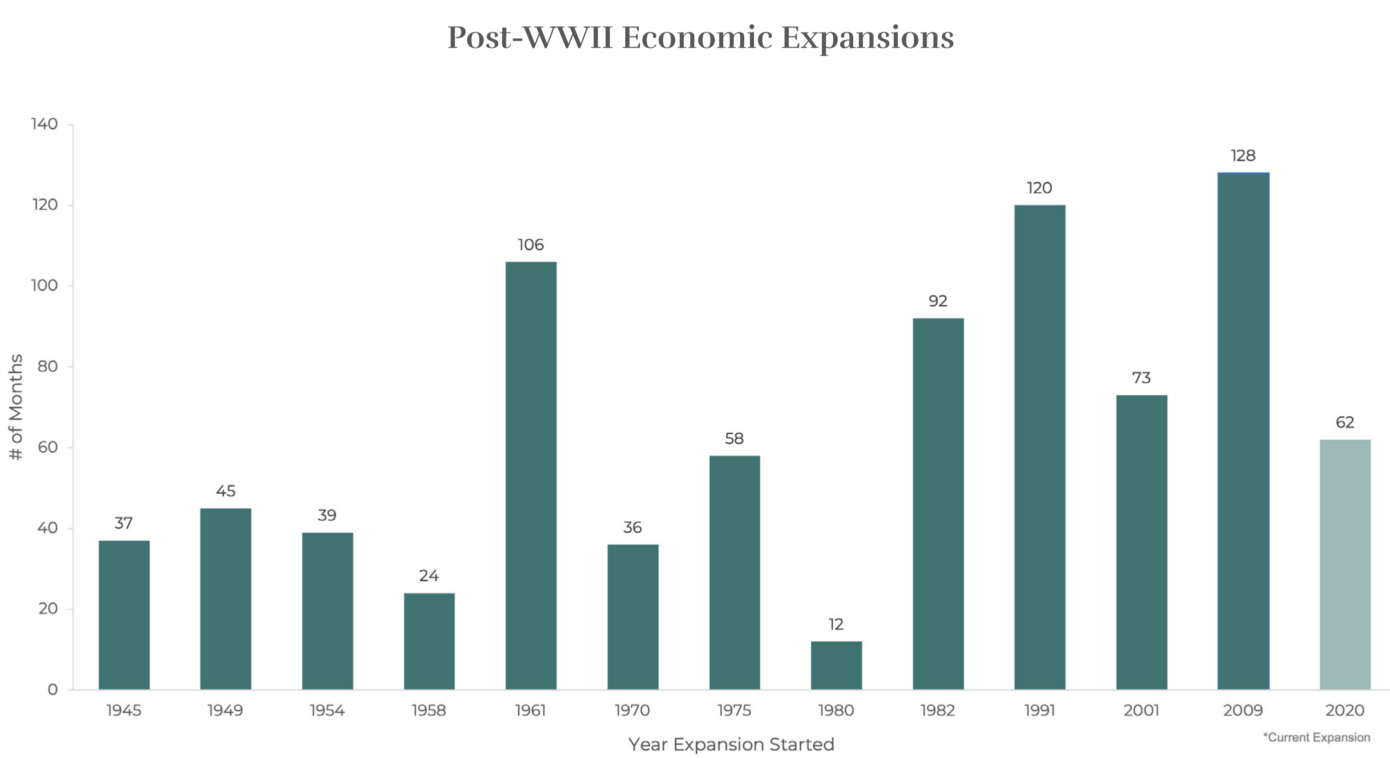
Breakaway to Longer Economic Expansions

The Great Depression remains the most severe economic catastrophe in modern U.S. history. Between 1929 and 1933, economic output plummeted 29%,[1] 7,000 banks failed, the unemployment rate soared to 25%,[1] and the Dow Jones Industrial Average collapsed by nearly 90% from its 1929 peak.[2] The economic crisis triggered a regulatory overhaul of the U.S. banking and financial systems, and elevated the Federal Reserve's (Fed) role in maintaining financial stability. Stronger financial oversight and a more responsive and proactive Fed have since contributed to broader economic stability, making recessions less frequent and economic expansions longer.

The U.S. economy is now in its 13th economic expansion since World War II ended 80 years ago. Post-war expansions have averaged 64 months, but have varied substantially in duration, lasting between 12 to 128 months. In addition to a more responsive Fed, the economy has become less cyclical as it shifted away from heavy manufacturing to service-driven industries like finance, technology, and healthcare. Manufacturing's share of U.S. GDP has declined from 23%[3] in 1970 to just 10% today.[4]

Recent expansions have lengthened substantially **(Figure 1),** with the four completed expansions since 1982 lasting an average of 103 months (8.5 years), more than twice the 48-month average of the nine earlier post-WWII expansions.

Figure 1: Longer Economic Expansions



Source: Cetera Investment Management, National Bureau of Economic Research (NBER). Data as of 6/30/2025.

Recessions: Downshifting into Economic Decline

Recessions are like death and taxes—they are inevitable. The National Bureau of Economic Research (NBER), the official independent arbiter of business cycle dating, defines a recession as "a significant decline in economic activity that is spread across the economy and lasts more than a few months." While each recession differs by cause, depth, and duration, all share one common trait—declining employment. Most recessions are triggered by an economic shock, a financial crisis, restrictive monetary policy, or a structural imbalance.

Since World War II ended, the U.S. has experienced 12 recessions, with the economy contracting by an average of 2.8%, lasting 10 months on average, and unemployment rising by 4.1 percentage points **(Figure 2).**

Figure 2: Overview of Post-WWII Recessions

Recession Start Date	Duration (Months)	Real GDP Decline	Unemployment Rate (Pre-Recession Cycle Low)	Peak Unemployment Rate	Unemployment Rate Increase
December 1948	11	-1.7%	3.4%	7.9%	***4.5%***
July 1953	10	-2.5%	2.5%	6.1%	***3.6%***
September 1957	8	-3.6%	3.7%	7.5%	***3.8%***
June 1960	10	-1.3%	4.8%	7.1%	***2.3%***
January 1970	11	-1.1%	3.4%	6.1%	***2.7%***
December 1973	16	-3.1%	4.6%	9.0%	***4.4%***
February 1980	6	-2.2%	5.6%	7.8%	***2.2%***
August 1981	16	-2.6%	7.2%	10.8%	***3.6%***
August 1990	8	-1.4%	5.0%	7.8%	***2.8%***
April 2001	8	-0.4%	3.8%	6.3%	***2.5%***
January 2008	18	-4.0%	4.4%	10.0%	***5.6%***
March 2020	2	-9.2%	3.5%	14.8%	***11.3%***
Average	*10*	*-2.8%*	*4.3%*	*8.4%*	***4.1%***

Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, National Bureau of Economic Research (NBER), U.S. Bureau of Labor Statistics.

The shortest yet steepest post-war contraction was the short-lived COVID-19 recession, which lasted only two months, but saw a staggering 21.9 million jobs lost in March and April 2020. The swift recovery fueled by record fiscal stimulus and a responsive Fed led to employment reaching pre-pandemic levels by June 2022.

The Great Financial Crisis (GFC), on the other hand, was the longest post-WWII recession at 18 months, lasting from January 2008 to June 2009. Nearly nine million jobs were lost during the GFC, and it took five years for employment to fully recover. While the longest economic expansion, at 128 months, followed the GFC, it was also the weakest in terms of growth, as consumers and businesses deleveraged following the debt excesses of the housing bubble.

Economic expansions have grown longer, and recessions have become less frequent over time **(Figure 3).** Between 1855 and 1945, the economy was in recession an astounding 42% of all months. Over the past 80 years (since the end of World War II), that figure dropped to just 13%. Since the early 1980s double-dip recession, the economy has been in a recession only 7% of all months. In the 16 years since the Great Financial Crisis ended, the economy has been in recession for only two months. Recessions have become less frequent, but they are an unavoidable part of the economic cycle.

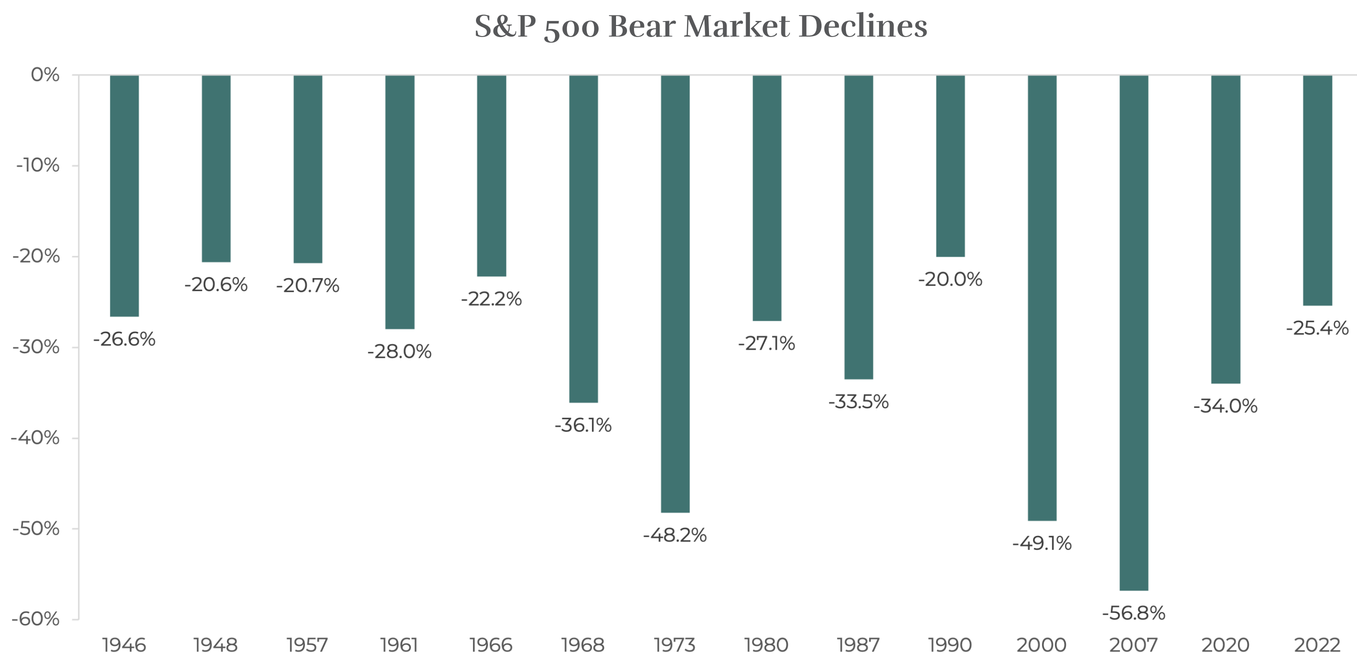
Figure 3: U.S. Recessions

Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, National Bureau of Economic Research (NBER).

Bear Markets: The Downhill Descent

While recessions have become less frequent in recent decades, financial markets remain highly sensitive to cyclical downturns, typically triggering bear markets. The stock market has more twists and turns than the economy, but long-term market trends typically follow the path of the economy. A bear market is defined as a decline of 20% or more, and most have occurred around a recession. The S&P 500 has experienced 14 bear markets since 1946 **(Figure 4)**, and 11 coincided with recessions. Growth scares in 1962, 1987, and 2022 sunk the S&P 500 into a bear market, but a recession did not follow.

Figure 4: Post-War Bear Markets



Source: Cetera Investment Management, Yardeni Research, Standard & Poor's. A bear market is defined as a peak-to-trough decline of 20% or more based on closing prices.

The most severe post-war bear markets have coincided with recessions, including:

- 1973-74: -48.2%
- 2000-02: -49.1%
- 2007-09: -56.8%

Across the eight recessions since 1970, the S&P 500 had an average peak-to-trough decline of 36%, taking an average of 14 months for the market to reach a bottom. However, the stock market is forward-looking. It typically peaks before a recession begins, with an average lead time of seven months. A market low is typically reached in advance of the economic recovery.

Recessions are painful, but there is a silver lining for investors – markets recover. Coming out of the last eight recessions, the S&P 500 gained an average of 47.9% a year after the stock market low.

Bull Markets: The Long Ride Up

Bull markets, like cycling races, feature fast-paced sprints, unexpected turns, and challenging climbs after setbacks. No investor wants to see their portfolio take a tumble, but the good news is that the stock market has historically trended higher over time, spending far more time in bull markets than bear markets.

Since 1960, S&P 500 bull markets have lasted an average of 53 months with an average return of 156%. By contrast, bear markets have averaged 13 months and decline by an average of 36%. A decline of that magnitude is painful, but history has shown that bear markets create opportunities. Long-term investors who continue to dollar-cost average purchases during downturns can buy equities at a discount, positioning themselves for strong gains when a renewed bull market blossoms.

The longest post-war bull market followed one of the worst downturns. After a grueling 57% decline from October 2007 to its low in March 2009 during the Great Financial Crisis, the S&P 500 entered a nearly 11-year bull market run that generated a total return of more than 500%. The ride wasn't smooth, with deep corrections of -16% in 2010, -19.4% in 2011, -14.2% in 2015-16, and -19.8% in 2018. The bull market was still spinning its wheels in early 2020 before the COVID-19 global pandemic triggered an intense crash, resulting in a 34% decline in just 23 trading days. For investors that remained in the saddle and peddled forward, the S&P 500 surged 77% a year after hitting the pandemic low.

Bull markets are not linear. There are ups and downs that require investors to remain focused and resilient, even during a multi-year uptrend. Patient investors who stick to their long-term plan and push through short-term adversity are often well-positioned when markets recover from setbacks and sprint to new highs.

Current Terrain

More than five years have passed since the pandemic recession ended in April 2020. Consumers and businesses have navigated this expansion through grueling challenges, including surging inflation and a steep climb in interest rates. Consumer spending is the engine of the economy, accounting for roughly two-thirds of total activity. Battle-tested consumers have pedaled through strong economic headwinds and remain resilient. While inflation has eased, interest rates remain elevated, and tariffs have become the latest obstacle. Ongoing tariff uncertainty has already disrupted supply chains. If higher tariffs persist, they could drive up inflation on imported goods and dampen business investment. The full economic impact is unclear, and the Fed is maintaining a cautious stance on interest rate policy as they await greater clarity on how tariffs will impact inflation and the broader economy.

Consumers must remain in the saddle for this expansion to stay on course, leading the economic peloton. Now at 62 months, the current expansion is closing in on the post-war average of 64 months. Job growth, wage growth, and consumer spending have downshifted, but continue to keep the wheels of the economy moving forward. The economic expansion is getting a tailwind from the ongoing technological revolution, with breakthroughs in artificial intelligence, quantum computing, and electric vehicles. This revolution is fueling R&D spending and spurring massive investments in data centers, domestic microchip production, and advanced battery manufacturing.

The stock market's ride has been anything but smooth this decade, with two bear markets - the pandemic-driven crash in 2020 and the inflation-fueled bear market in 2022. Since the 2022 bear market low, the S&P 500 has faced three corrections of 10% or more, including an 18.9% drawdown this year. In April, the Nasdaq and Russell 2000 fell into bear market territory, though both indices have rebounded more than 20% since the low. Despite the bumpy ride, the S&P 500 has generated a total return of more than 70% since its October 2022 low. Tariff uncertainty created a sharp hairpin turn for investors this year, but market dynamics appear healthier following the strong rebound.

Meanwhile, diversified investors have gained from a surge in international equities. After trailing the pack for years, foreign stocks picked up steam this year, benefiting from a weaker dollar, attractive valuations, and more accommodative monetary policy abroad.

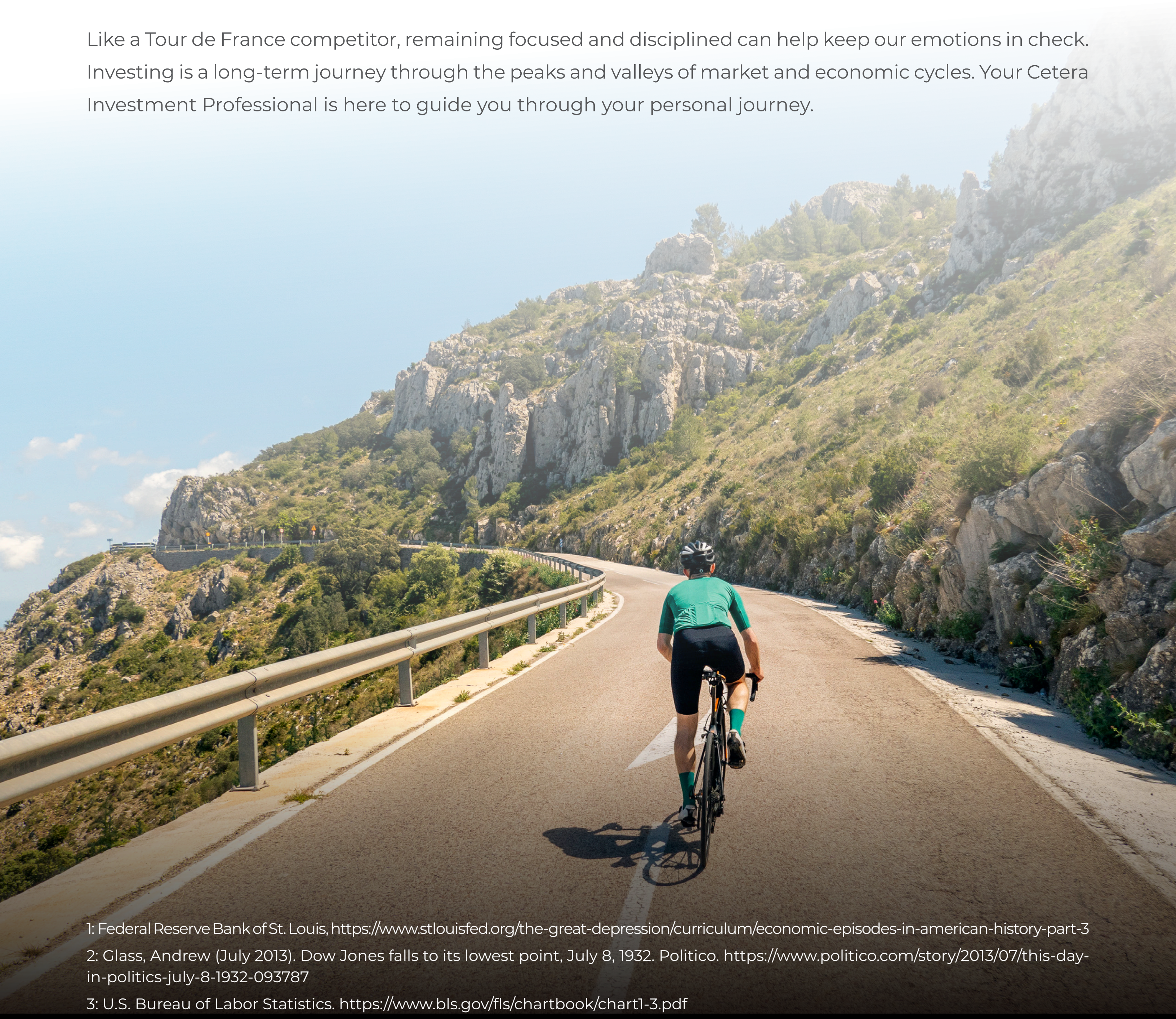
The durability of this bull market likely rests on the economy avoiding a recession. While tariff uncertainty, elevated interest rates, and slowing economic conditions pose a risk, we do not anticipate a near-term economic crash. The earnings outlook for 2025 has softened, but that was priced in when markets hit a pothole in April. Furthermore, corporate earnings are still growing, and investors are looking ahead, anticipating Fed rate cuts and a more robust earnings outlook next year.

Coming Full Circle

The economy and stock market are cyclical, but timing each cycle is nearly impossible. While we can gain insight from past trends, circumstances change over time, making predictions tricky. One thing is certain, however. All cycles end. Recessions and bear markets are inevitable, but so is the eventual recovery.

Times change, but human behavior does not. There is a behavioral component to all cycles. Fear and greed are ingrained into our psyche. Herd behavior drives speculative bubbles, and bear markets raise anxiety, driving investors away.

Like a Tour de France competitor, remaining focused and disciplined can help keep our emotions in check. Investing is a long-term journey through the peaks and valleys of market and economic cycles. Your Cetera Investment Professional is here to guide you through your personal journey.



1: Federal Reserve Bank of St. Louis, https://www.stlouisfed.org/the-great-depression/curriculum/economic-episodes-in-american-history-part-3

2: Glass, Andrew (July 2013). Dow Jones falls to its lowest point, July 8, 1932. Politico. https://www.politico.com/story/2013/07/this-day-in-politics-july-8-1932-093787

3: U.S. Bureau of Labor Statistics. https://www.bls.gov/fls/chartbook/chart1-3.pdf

4: U.S. Bureau of Economic Analysis, retrieved from Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/VAPGDPMA

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