



# Rapid Reaction

RECESSION FEARS

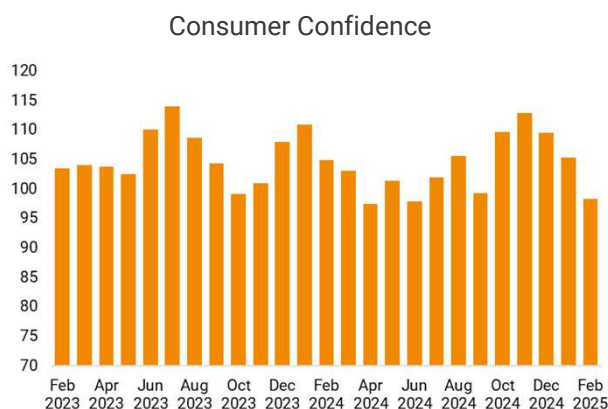
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### What's happening?

Fears of a recession have ratcheted up notably over the last several weeks. Part of the reason is the high level of uncertainty regarding trade policy and the rapidly changing stance of the Trump administration on when and if tariffs will be implemented, and how long they may remain in effect. Immediately following the election there was some hope that trade policy wasn't going to be as front-and-center, but the recent focus on close allies and our largest trade partners has sparked increasing economic concern. These fears are reverberating around the economy and showing up in meaningful ways in both business and consumer survey data. Further, tariffs were mentioned at the highest rates across the S&P 500 earnings calls in the last 10 years, with some notable companies publishing worse-than-expected future guidance. Over the last few days, President Trump has made remarks that many perceive as ambivalent toward the possibility of an economic recession resulting from trade policies. The result has been substantial market volatility.



### How are markets reacting since the election?

After an initial pop in equity markets after the election, the late February announcement of broad tariffs on the US's three largest trading partners sent markets into a downward spiral. Today's substantial losses tipped the S&P 500 into negative territory since the election, while US Aggregate Bonds benefited as a flight to safety.

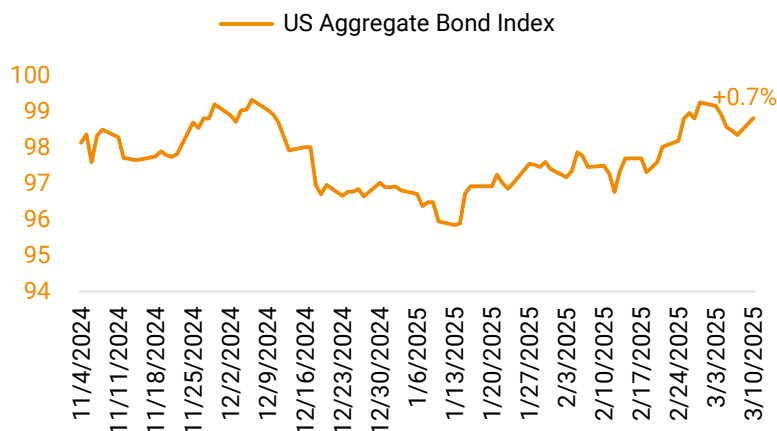
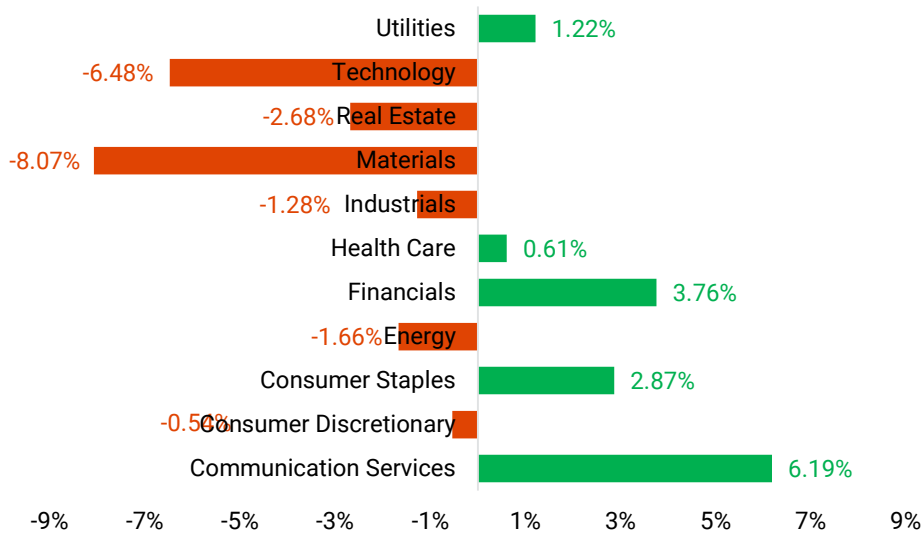
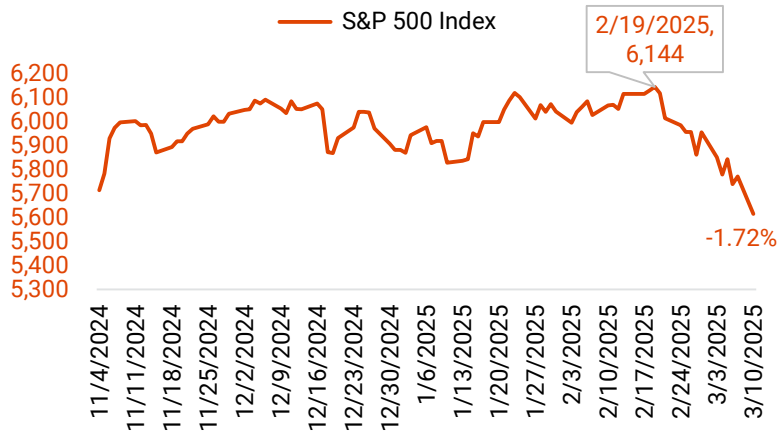
At a sector level, clear winners and losers have emerged. Despite a global supply chain, the Communications sector has performed well since November, followed by Financials and Consumer Staples. On the other hand, Materials and Technology have been hammered by tariff concerns in recent days.

Source: Helios Quantitative Research

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Source: Helios Quantitative Research, Bloomberg

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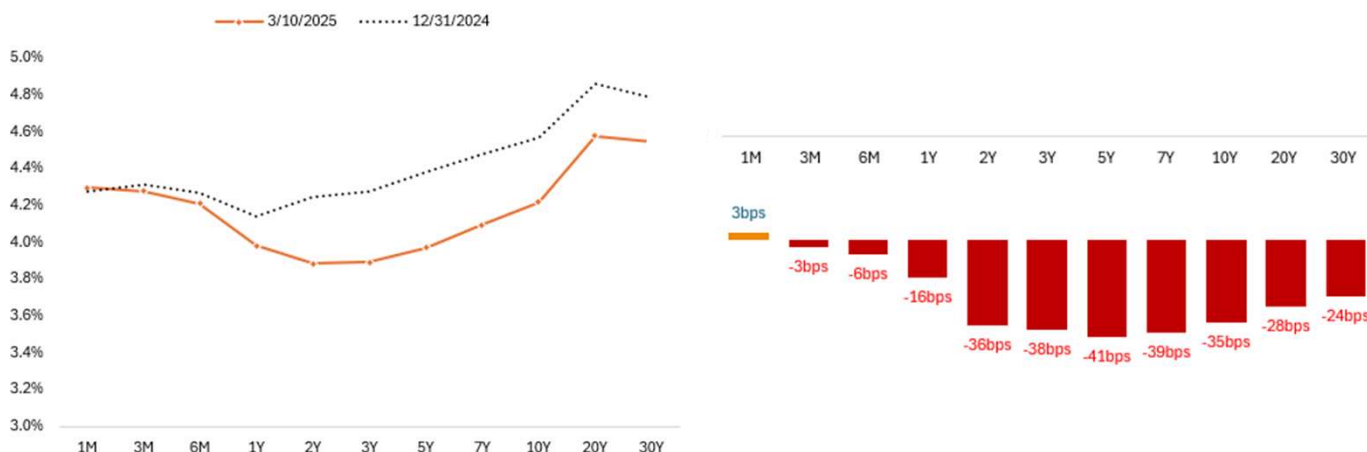
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### What about the yield curve?

The combination of higher long-term risk and lower expectations of Fed rate cuts in 2025 normalized the yield curve at the end of 2024. However, more recently, the yield curve has seen inversion points again as economic fears have taken hold. Normally, this would indicate the odds of an economic recession have substantially increased, but we must take any inversion with a grain of salt due to the Fed's continued "higher for longer" rate policy that distorts the naturally occurring shape of the yield curve.



### What does the NBER Recession Monitor say?

The National Bureau of Economic Research leans heavily on six data points to determine if the US is in a recession. We update these each week in the Weekly Report (page 23). Below you can see 3 out of 6 data points are negative.

The Employment Survey and Retail Sales are notoriously volatile calculations, so we tend to consider them secondary to other data points. The substantial change in Real Consumption is concerning, but 1 month doesn't make a trend. Most importantly, Non-Farm Payrolls continue to be substantially positive, even if they miss expectations. Jobs are the most important indicator, in our opinion.

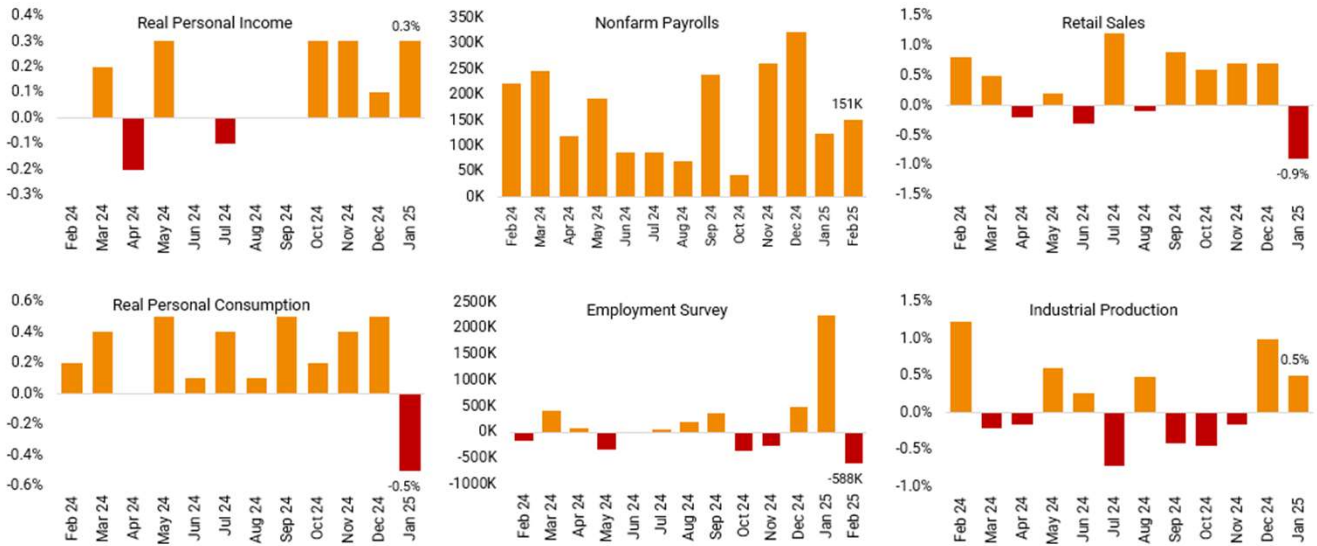
Overall, the economy is "good enough." There are certainly areas that look concerning, but there are also strong points. Historically, we have not seen an economic recession immediately form when the six data sets look like they do right now.

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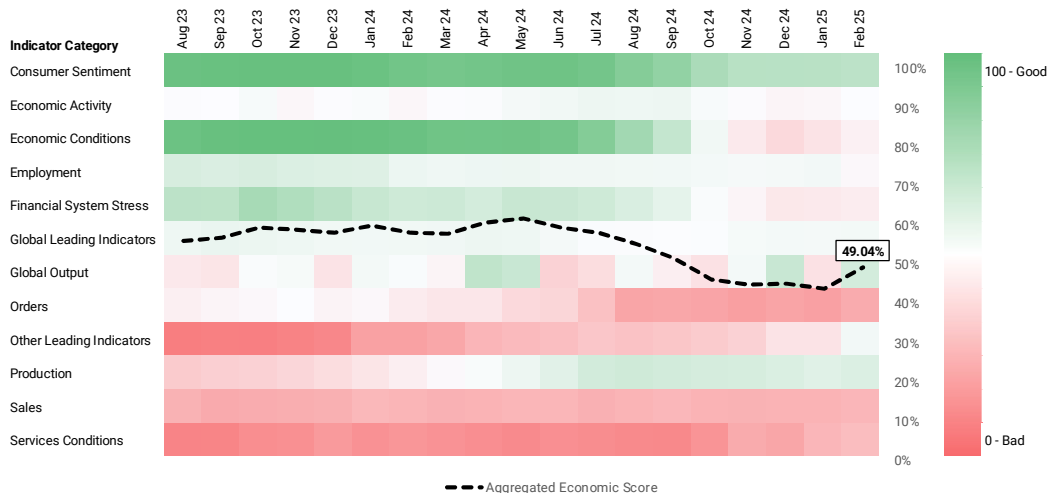


### NBER Key Recessionary Data Points



### Why does Helios score the economy at 50?

Our economy is vastly complex. Although tariffs may have an impact on GDP (-0.4% estimated) if they persist long enough, we see other areas of the economy improving. Specifically, we're seeing gains made in Global Output, Global Leading Indicators, and Domestic Production. This tells us the rest of the world is acting as a bit of a tailwind that had previously been missing. Could tariffs impact that? Yes. But we need to understand if and how much impact they have before shifting positions. As you know, the worst mistake is to overreact.



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### The bottom line

No one likes volatility. Each time market losses rear their ugly heads, we must ask ourselves the same question: Is this fear likely to be sustained, or is it going to dissipate?

History tells us the vast majority of fears dissipate, with equity markets rebounding quickly once the headlines pass.

At some point in the future, we will get a recession—but the data doesn't support that we're getting one right now. With the facts we have today, it's more likely we will experience an intense sell-off followed by a sharp(ish) rebound as investors recognize value in the market, especially in Technology.

The combination of rampant speculation about the impact of tariffs and the “good enough” state of the economy does not align with past recessions like 2000 or 2008 that created sustained and deep volatility for years.

We don't have a crystal ball, and there is a real possibility economic data could deteriorate from here—but just like we said at the end of 2022, the data doesn't support a recession right now.

# Important Disclosures



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