THE Wealth REPORT

Is the U.S. headed for — or already in — a recession? Some of the signs point to yes, but we may not know until it's already over.

A RECESSIONARY TALE

Are the signs pointing to a 2025 recession?

Overview

After President Trump announced new tariffs against a wide range of countries early in his second term, talk of a potential recession in the U.S. increased. Analysts at firms like J.P. Morgan and Goldman Sachs raised the probability of a recession in 2025 to as much as 60%, while markets turned volatile in anticipation of a potential economic slowdown.[1,2]

If a recession is on the horizon, what signs will tell us it's near — or even already here? In the first quarter of 2025, gross domestic product (GDP) shrank by 0.3%, indicating a pullback in the economy.[3] However, that doesn't necessarily mean we're in a recession. Read on to learn more about how a recession is defined, what history tells us about recessions and ways investors can stay prepared for a potential economic pullback.

A Brief History of Recessions

The economy is generally considered to be in a recession after two or more consecutive quarters of negative GDP growth. However, analysts also use other factors to measure whether a recession has occurred, including rising unemployment, declining sales and production, and a drop in real income.[4]

The U.S. has experienced 14 official recessions since the Great Depression.[5] While they generally vary in length and severity, since World War II, recessions have lasted 11.1 months on average.[6] The tricky part is identifying a recession while it's happening; by the time most recessions are recognized as such, they're almost over. For instance, the Great Recession of 2008-2009 wasn't officially announced until December 2008, almost a full year after it started. And in 2020, we were already done with the shortest recession on record by the time it was declared as such.[5]

Signs of a Possible Recession

Certain signs exist that could indicate a future recession. A contracting economy — as measured by GDP — is certainly a sign. Governmental policies can sometimes contribute to economic declines, as we saw in the first quarter of 2025, as businesses and consumers reined in spending amid tariff announcements.[7]

Another sign is an inverted yield curve, when short-term government securities yields are higher than the 10-year Treasury bond. Although not every inverted yield curve has been followed by a recession, every recession has been preceded by an inverted yield curve. In March 2022, the yield curve inverted when the two-year Treasury exceeded the 10-year rate, and we reportedly entered a short "technical" recession immediately after. (Revised data released since then show the U.S. wasn't truly in a recession in 2022, since we experienced only one quarter of economic decline.)[8]

High or increasing interest rates can also be a catalyst for recession. The Federal Reserve has pushed the U.S. into recession in the past by raising rates too aggressively. Although the Fed has been in a rate-cutting cycle since September 2024, they have kept the fed funds rate at 4.25%-4.5% in 2025.[9] They are not currently expected to increase rates, but that could change if inflation spikes due to imposed tariffs.

Preparing for a Possible Recession

If we are headed toward a recession, what actions should investors take to prepare? Here are a few things to know:

- **Like the markets, you can't time a recession.** Since we often don't know we're in a recession or how long it will last, it's impossible to pinpoint when we're at the bottom. Markets often sell off before we know the full impact — and rebound ahead of recovery.
- **One strategy may be to set aside short-term assets.** The average recession lasts about a year. Your short-term assets can be used to get you through that period and allow you to take advantage of opportunities when the economy begins to recover, without dipping into your intermediate- and long-term investments.
- **Another strategy may be to focus on commodities and real assets.** As we head into a recession, earnings tend to struggle as most companies focus more on a strong balance sheet and less on growth. Consider investing in companies that produce and sell products people need (such as food and gas) instead of want (like luxury goods and electronics).

Final Thoughts

A recession can impact your financial plan, including possible job loss, reduced income or even a change in when you retire. If you're concerned about a potential recession and its effect on your retirement, reach out to your financial advisor. They can help you identify strategies to ride out a recession while staying focused on your long-term goals.

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