Strategy Outlook

Dispatches From The Future (January 2, 2026): The 2025 Recession

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Executive Summary

This is the time of the year when strategists are busy sending out their annual outlooks. Here on the Global Investment Strategy team, we decided to go one step further. Rather than pontificating about what could happen in 2025, we decided to harness the power of the multiverse to tell you what did happen (in at least one highly representative timeline).

- **Global economy:** Global growth slowed sharply in 2025. The NBER now reckons that the US entered a recession in May 2025. Despite a major global trade war, China’s stimulus policies remained reactive rather than proactive.
- **Equities:** The S&P 500 finished the year at 4452, after falling to as low as 4197 in early November. Consumer staples, health care, and utilities were the best-performing sectors. The euphoria over AI stocks waned.
- **Bonds:** After a spike in Treasury yields in the spring of 2025 forced President Trump to abandon most of his promised tax cuts, the US 10-year Treasury yield dropped to 3.25% by year end. Credit spreads widened sharply.
- **Currencies:** The US dollar experienced extreme volatility in 2025. The yen was the top-performing major currency, strengthening to 115 against the dollar.

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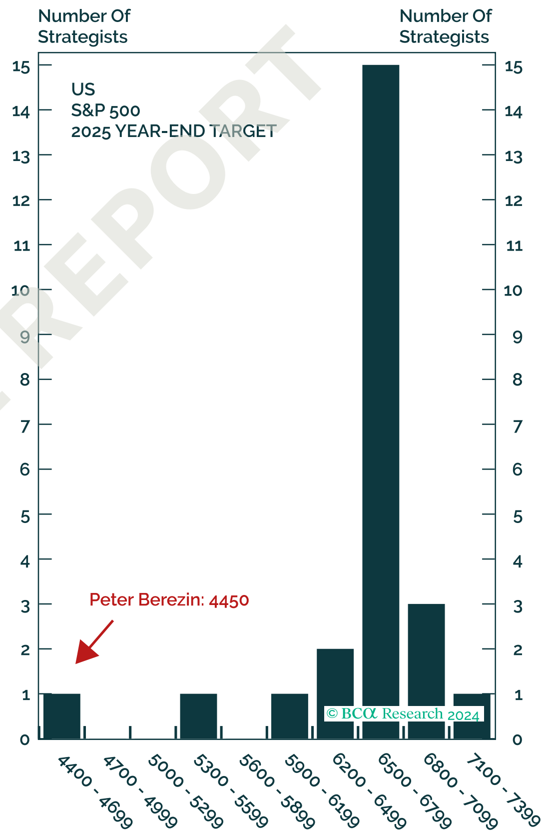

NOTE: DATA AS OF DECEMBER 12, 2024.
SOURCE: BLOOMBERG FINANCE L.P. (SPX INDEX ANR).

- **Commodities:** Oil and industrial metals prices fell in 2025. Gold prices rose modestly. Bitcoin swooned to $45,000.

Bottom Line: Hopes of a soft landing failed to materialize in 2025 as a trade war and a bond market riot pushed the global economy into a recession. In retrospect, a defensive portfolio would have been advisable.

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The Consensus: Wrong As Usual

It is amazing how much can change in 12 months. In mid-December 2024, the S&P 500 was above 6000. The Wall Street consensus was that the index would rise another 10% or so in 2025 (**Chart 1**).

Fast forward to the start of 2026, and the index stands at 4452, after having fallen to a low of 4197 in early November.

The hoped-for soft landing never arrived in 2025. Although it was not obvious at the time, the NBER now believes that the US entered a recession in May of that year.

Most strategists blame the trade war and the turmoil in bond markets for the recession. There is no doubt that both factors contributed to the downturn, but the reality is that the global economy was already skating on thin ice in late 2024.

CHART 1
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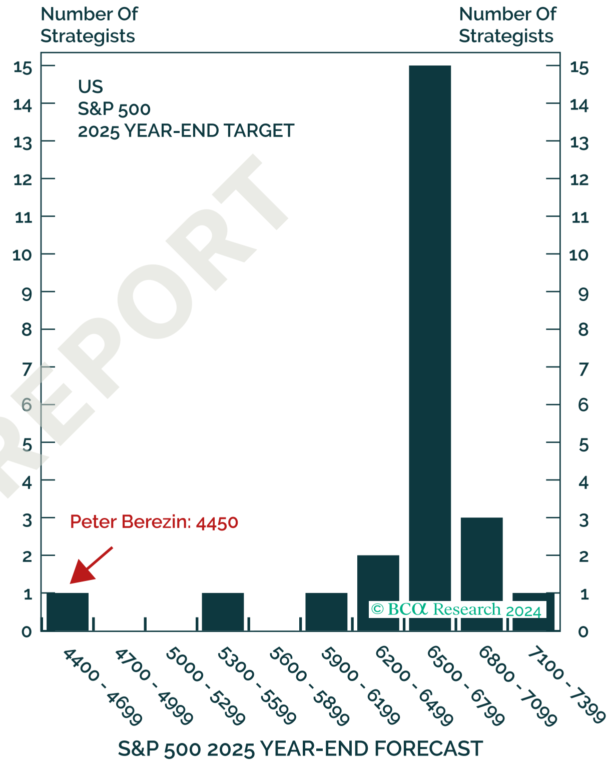


NOTE: DATA AS OF DECEMBER 12, 2024.
SOURCE: BLOOMBERG FINANCE L.P. (SPX INDEX ANR).

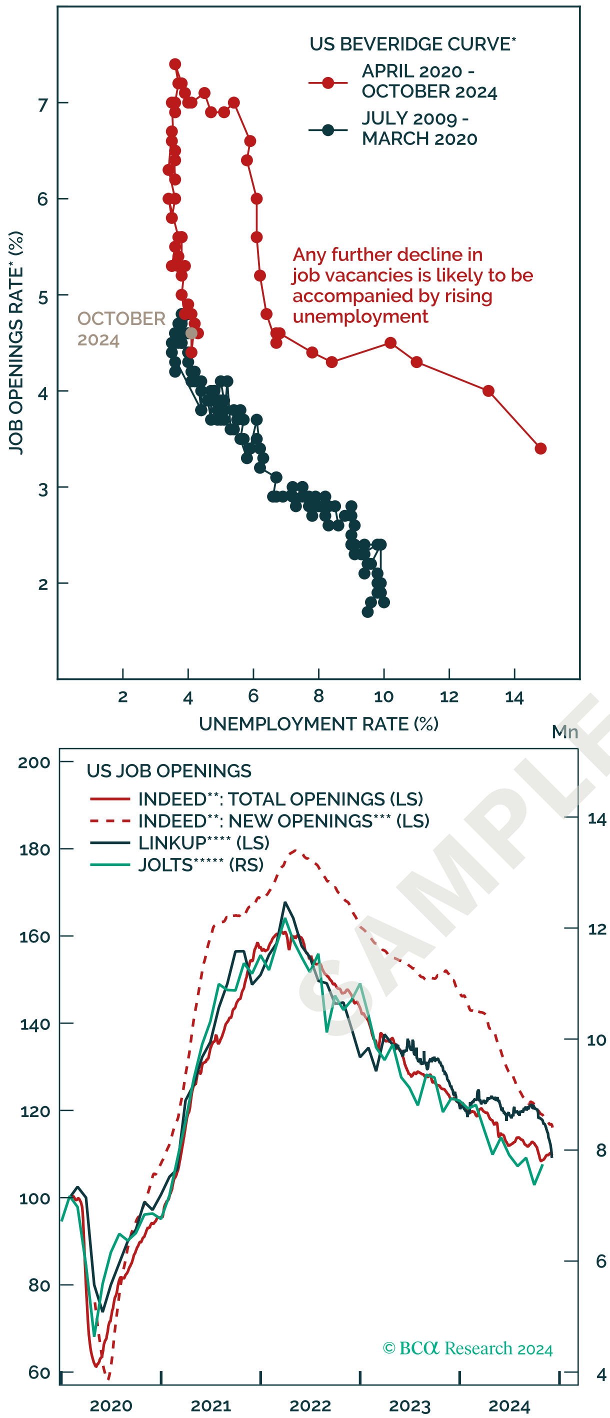
Cracks in the US Labor Market

Back in 2022, when we were out-of-consensus in arguing that a US recession was NOT imminent, we noted that the extremely high level of job openings insulated the labor market. Almost anyone who lost their job back then could simply walk across the street to find new work. This prevented unemployment from rising.

By the second half of 2024, job openings had retreated close to pre-pandemic levels. The official job openings rate stood at 4.6% in October. This was near the rate of 4.5% that Fed Governor Christopher Waller had identified as marking the kink in the Beveridge curve – the point at which any further decline in openings would trigger a self-reinforcing cycle of rising unemployment (**Chart 2**).

CHART 2

Job Openings Reached The Kink In The Beveridge Curve



* THE JOB OPENINGS RATE IS COMPUTED BY DIVIDING THE NUMBER OF JOB OPENINGS BY THE SUM OF EMPLOYMENT AND JOB OPENINGS. SOURCE: JOB OPENINGS AND LABOR TURNOVER SURVEY (JOLTS), BLS.
** SERIES INDEXED TO FEB. 1, 2020 = 100. SOURCE: INDEED.
*** SHOWN AS A 3-MONTH MOVING AVERAGE.
**** SERIES INDEXED TO FEB. 1, 2020 = 100. SOURCE: LINKUP.
***** SOURCE: JOB OPENINGS AND LABOR TURNOVER SURVEY (JOLTS), BLS.

As job openings trended down and the hiring rate hit an 11-year low, it became increasingly difficult for unemployed workers to find jobs (**Chart 3**). The number of so-called "permanent job losers" – people who were unemployed because they lost a permanent job – was 48% higher in November 2024 than on the eve of the pandemic. The median length of unemployment climbed to 10.5 weeks. The number of people collecting unemployment benefits in mid-December 2024 was 14% higher than at the same time of the year in 2018/19. Employment at temporary help agencies – a classic leading indicator for the labor market – continued to sink.

Among those who were still employed, a growing number were working part-time for economic reasons (**Chart 4**). As usually happens in the lead-up to recessions, the fraction of the working-age population with a full-time job declined. It was nearly a percentage point lower in November 2024 than in April 2023. On an unrounded basis, the headline unemployment rate rose to 4.246% in November 2024, just a whisker below the prior peak of 4.253% reached in July 2024.

THIS IS A SAMPLE REPORT.

Our team will be in touch shortly with the full report.

If you do not receive a call, please contact our Client Services team clientsuccess@bcaresearch.com