

# Predicting U.S. Recessions: Financial Variables as Leading Indicators

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## Abstract

This paper examines the out-of-sample performance of various financial variables as predictors of U.S. recessions. Series such as interest rates and spreads, stock prices, and monetary aggregates are evaluated individually and in comparison with other financial and nonfinancial indicators. The analysis focuses on out-of-sample performance from one to eight quarters ahead. Results show that stock prices are useful with one- to three-quarter horizons, as are some well-known macroeconomic indicators. Beyond one quarter, however, the slope of the yield curve emerges as the clear individual choice and typically performs better by itself out of sample than in conjunction with other variables.

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