Investment Insights

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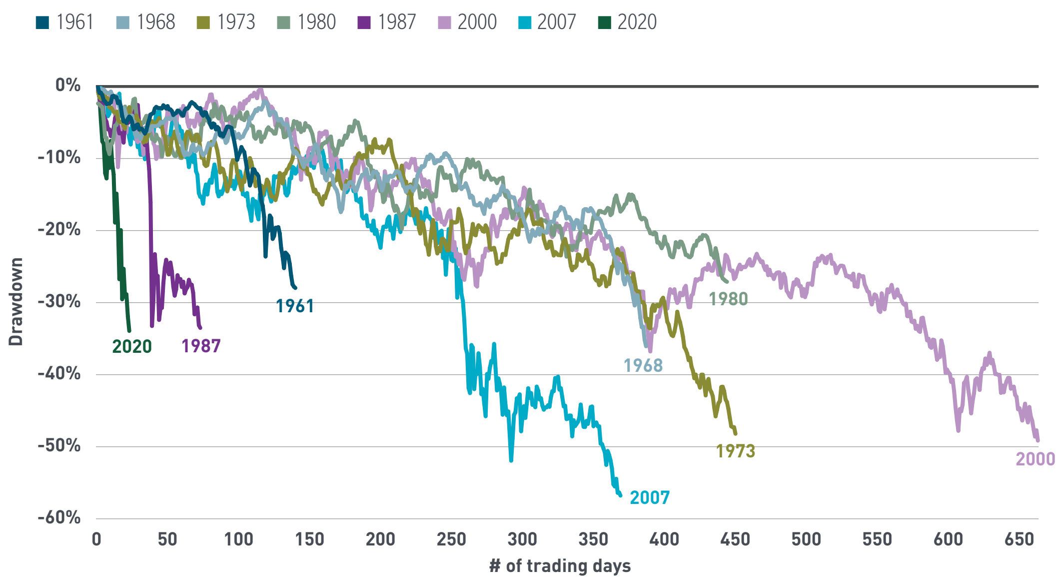
Free Falling: The Market's Race to the Bottom

Investment Solutions Group

In the stock market's modern history, the current downturn produced the most accelerated path to a 30% loss from its peak. It took the S&P 500 Index only 22 trading days to drop 30% from its peak on February 19, 2020. In comparison, the impact of the financial crisis appeared to be distinctly profound, yet it took 250 trading days for the market to experience a 30% drop. The closest comparison in terms of downturn expediency was the drop that began on Black Monday in 1987 (as shown in Exhibit 1), which occurred in 38 trading days. In addition, what is unprecedented in this crisis is the speed of fiscal and monetary policy intervention.

Exhibit 1: Bear markets vary in length and intensity



Source: FactSet and S&P US. Daily data as of 31 December 1940 to 27 March 2020. **1961** = 12 December 1961 to 26 June 1962. **1968** = 29 November 1968 to 26 May 1970. **1973** = 11 January 1973 to 3 October 1974. **1980** = 28 November 1980 to 12 August 1982. **1987** = 25 August 1987 to 4 December 1987. **2000** = 24 March 2000 to 9 October 2002. **2007** = 9 October 2007 to 9 March 2009. **2020** = 19 February 2020 to 23 March 2020. It is not possible to invest directly in an index.

In 2008, the US undertook a multi-tiered, multi-year effort to right the ship – the Fed lowering its target interest rate from 3.5% to below 0.25% percent as well as adopting a policy of quantitative easing (QE) in order to increase the money supply. In early 2009, Congress passed the $787 billion American Recovery and Reinvestment Act to stimulate the economy. In contrast, both monetary and fiscal actions were quickly enacted in 2020, as everything from the downturn to the response shifted into hyper-drive. The Fed cut interest rates in two emergency meetings on March 3 (50 basis points) and March 15 (100 bps), taking the federal funds rate to 0-0.25%; it also pledged $700 billion in asset purchases, promised unlimited, open-ended QE (March 23) and provided more than a trillion dollars in support for central banks and businesses in the form of liquidity and funding. In terms of fiscal stimulus, the federal government enacted aid packages of $2.2 trillion (March 25) and $484 billion (April 24) as it attempted to stabilize a pandemic-riddled economy.

Key takeaways

- Bear markets have generally lasted a year or less, while bull markets have usually stretched twice as long.
- After the financial meltdown, it took 65 months for the market to recover to its pre-bear market peak; in 2000, it took 65 months (between the dot-com bubble and the aftermath of September 11).
- Periods of dislocation present investment opportunities, as investors must summon patience and a long-term horizon to benefit.
- We are focused on unearthing potential opportunities of companies that can thrive in a variety of market environments.

The **S&P 500 Index** measures the broad US stock market.

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