

How stock markets perform after heavy falls

10 March 2020

Stock markets have tumbled in the midst of the coronavirus outbreak. Analysis shows how the biggest one-day falls in the past have been followed by substantial returns over the subsequent five years.



Coronavirus concerns have swept through financial markets. Globally, stocks have endured some of their worst performances since the days of the financial crisis.

For instance, the US stock market, as measured by the S&P 500, fell 7.6% in one day on 9 March 2020, its fifth worst trading day since 1988.

On the same day, UK stocks, as measured by the FTSE All-Share Index, fell sharply. It dropped 7.4%.

What next?

It is impossible to predict what may happen next. The severity of the disease and its long-term economic impacts are still yet to be seen.

However, while the stock market has been quick to react, history shows it has a tendency to bounce back strongly over time.

How the stock market bounces back

Using the US stock market as an example, the past three decades show the strongest five-year rebound in the US brought a return of 164%. That is an annualised return of 21% in the five years after a 6.7% fall for the S&P on 20 November 2008.

That date was during a particularly gloomy phase of the 2008-09 financial crisis.

Given the abject mood at the time, investors may have struggled to believe that an investment of \$10,000 made in the market at the start of that turbulent day would have grown to \$26,400 within five years, before charges.

Of course, past performance is not guaranteed to be repeated in the future. The returns are illustrative and do not include any costs or fees. But the data underlines the historic resilience of shares over longer timeframes, even following shocks.

The US stock market's ten worst days and their rebounds

Date	Reason	One day fall	Return after one year	Return after five years
15/10/2008	Global financial crisis	-9.0%	24.0%	109.0%
01/12/2008	Global financial crisis	-8.9%	39.3%	146.3%
29/09/2008	Global financial crisis	-8.8%	-1.5%	69.9%
09/10/2008	Global financial crisis	-7.6%	20.9%	103.5%
27/10/1997	Asian economic crisis	-6.9%	23.4%	8.7%
31/08/1998	Russia defaults on loans	-6.8%	39.8%	13.0%
20/11/2008	Global financial crisis	-6.7%	48.8%	164.3%
08/08/2011	Eurozone debt crisis	-6.6%	28.1%	117.0%
13/10/1989	Black Friday	-6.1%	-5.8%	63.8%
19/11/2008	Global financial crisis	-6.1%	39.2%	147.5%

Past performance is not a guide to future returns.

Source: Schroders. Refinitiv data correct as at 3 March 2020. Data shown is for the S&P 500 Total Return Index, which includes price increases and dividend payments.

A short history of the stock market's worst days

As the table above shows, the pattern is repeated on many other of the ten worst one-day crashes.

Falls associated with the global financial crisis, including the Eurozone debt crisis, account for seven of the ten worst days the US stock market has endured since 1989.

The most severe was a 9.0% fall on 15 October 2008. This was followed by a five-year return of 109%, or an annual equivalent of 15.9%.

The credit crisis escalated into a full-blown financial crisis in 2008 with the collapse of the investment bank Bear Stearns, and worsened with the failure of Lehman Brothers in September of that year. This created a domino-effect among banks and insurers. Forced mergers and government bailouts were required to stabilise markets.

Such crisis moments attract contrarian investors, such as the famed investor Warren Buffett who invested \$5 billion in Goldman Sachs in September 2008.

And the worst of the rest

The stock market falls during the post-dotcom 2000 to 2003 slump did not make the top ten. A 5.8% fall on 14 April 2000 was the 12th worst. It was followed by a 7.4% loss five years later.

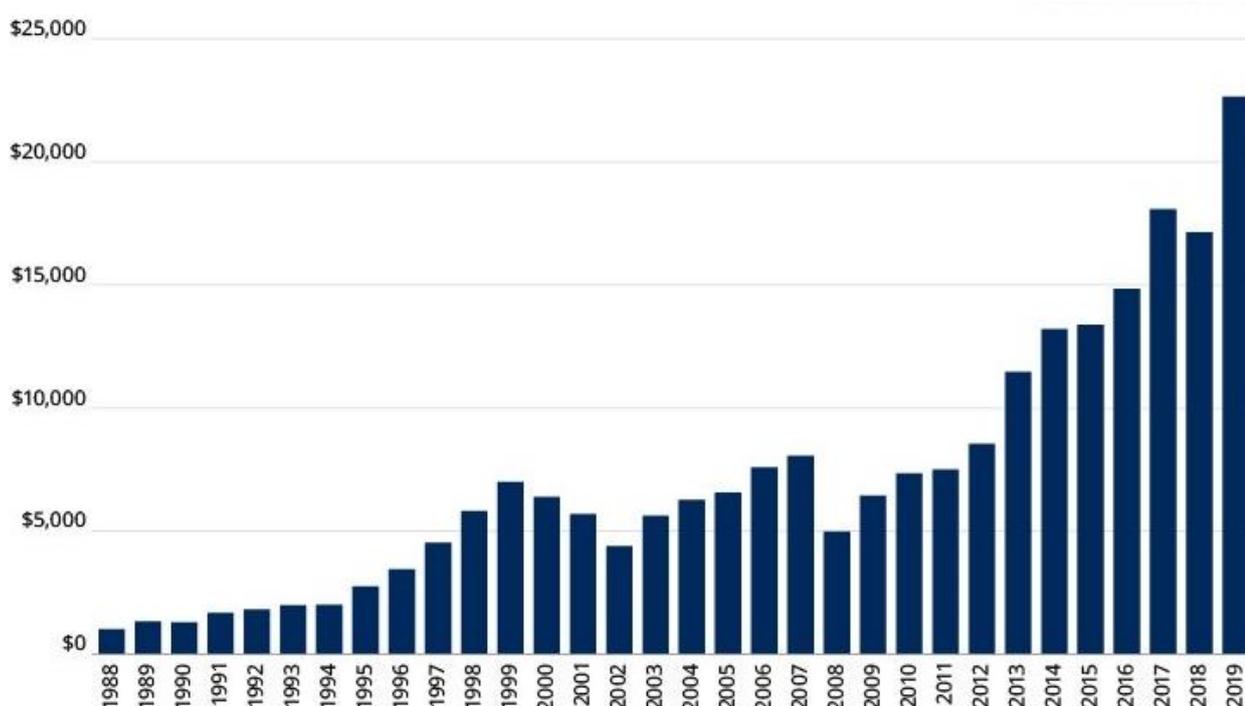
The data doesn't stretch back to Black Monday in October 1987 when US stocks fell 22% in a day, their biggest ever one-day fall.

Time in the market

As the chart below shows, the stock market has provided healthy returns, despite the ups and downs over the last three decades and providing you can keep your nerve.

A \$1,000 investment in the S&P 500 at the end of 1988, left alone, could now be worth \$22,678, not adjusted for charges or inflation. That's an average annual return of 10.6%.

How a \$1,000 investment could have grown since 1988



Past performance is not a guide to future returns. The chart is for illustrative purposes only and does not reflect an actual return on any investment.

Source: Schroders. Refinitiv data correct as at 3 March 2020. Data shown is for the S&P 500 Total Return Index, which includes price increases and dividend payments. Returns have not been adjusted for charges or inflation.

The strongest FTSE rebound

It's a similar picture for the UK's FTSE All-Share. The strongest recovery from the ten worst days was a 134% five-year gain following the worst of the banking crisis turbulence in the UK on 2 March 2009.

Again, like the S&P 500, the UK stock market has provided healthy returns, providing you can stomach the ups and downs over the last three decades.

A £1,000 investment in the FTSE All-Share Index at the end of 1988, left alone, could now be worth £14,016, not adjusted for charges or inflation.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

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