Coronavirus crisis compared with historical financial market crashes

25%-30% Correction with historical record speed

The events of recent weeks on the global financial markets will certainly go down in the history books. The stock markets around the globe have lost in a very short period of time around 30% of their all-time highs, which were only newly formed in February.

To find such a rapid turnaround from a "sky-high exulting" market euphoria to the current "deathly sad" mood in the history books, you have to go back a long way and yet you don't find anything. The events of the past few weeks deserve the title "historically unique" and have set a new record, which even the Wall Street panic of 1929 puts it in second place.

On average, the equity markets have taken only 24 days for the current 25% to 30% correction. This means that the current panic has built up such losses more than twice as fast as the Wall Street panic of 1929, when it took 56 days before the 25% loss occurred. The initial panic in 1929 was followed by the crash of the 1930s, which went down in history as the "Great Depression" or the "Great Depression". During this period, stock market losses increased from the 25% in October 1929 to a further 80% to 90% by the summer of 1932. This crash is still considered the worst crash in the history of the financial markets of the past 120 years.

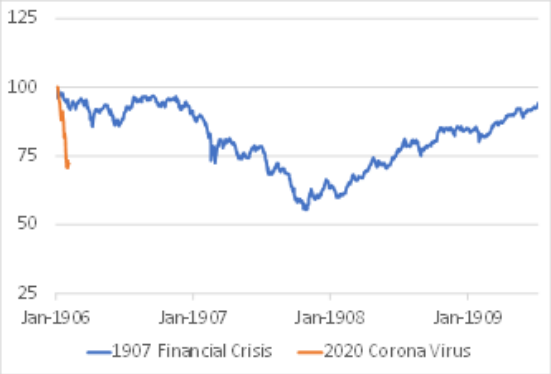
However, stock market crashes occur much more frequently than one would like to believe. In many cases, however, the initial panic subsides quickly and the markets return to normality. In some crises, on the other hand, losses accumulate far beyond the first 25% and often reach levels of 50% to over 70%.

In addition to the Great Depression, the oil crisis of the 1970s, the dotcom bubble at the beginning of this century and the financial crisis of 2008 are such megacrashes. All these megacrashes have typical characteristics, which we will discuss in more detail below.

Famous stock market crashes compared to the first weeks of the coronavirus crisis

Financial crisis in 1907

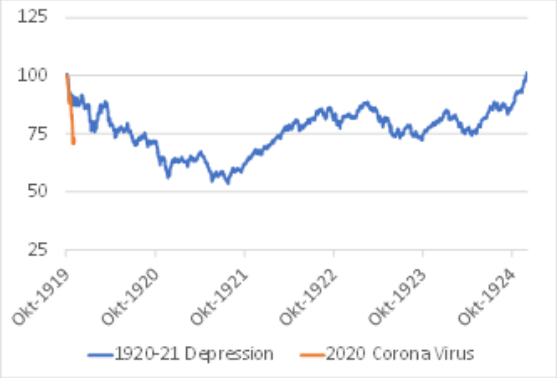
Maximum loss	-49%
Period of the crash	1906 bis 1907 (ca. 2 Jahre)
Duration up to -25% Loss	ca. 1 Jahr
Time of recovery	1909 (nach ca. 2 Jahren)
Followed by recession?	ja



Baloise Asset Management

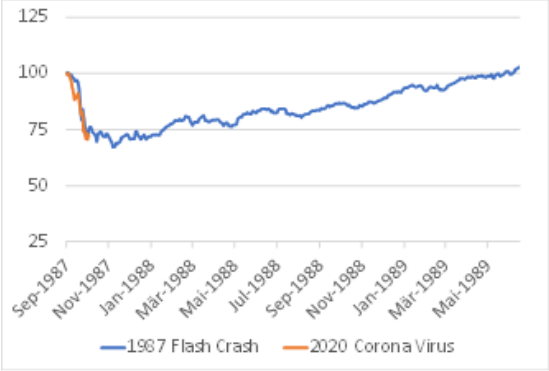
Depression 1920-21

Maximum loss	-47%
Period of the crash	1919 bis 1921 (about 2 years)
Duration up to -25% Loss	approx. 6 months
Time of recovery	1924 (after about 3 years)
Followed by recession?	yes



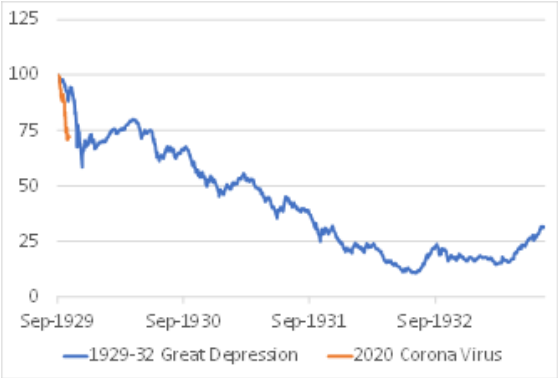
Flash Crash 1987

Maximum loss	Ø -31% (per index, from -25% to -52%)
Period of the crash	1987
Duration up to -25% Loss	approx. 2 months
Time of recovery	1989 (after about 2 years)
Followed by recession?	no



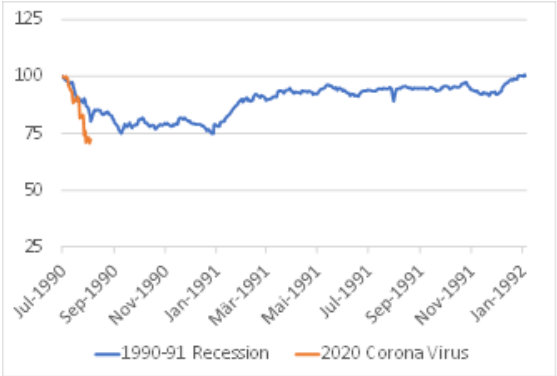
Great Depression 1929-32

Maximum loss	-90%
Period of the crash	1929 bis 1932 (about 3 years)
Duration up to -25% Loss	approx. 2 months
Time of recovery	1954 (after about 22 years)
Followed by recession?	yes



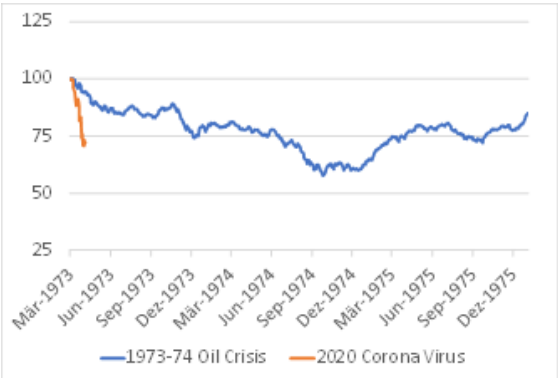
Recession 1990-91

Maximum loss	-30% (per index, from -26% to -34%)
Period of the crash	1990 - 1991 (about 1 year)
Duration up to -25% Loss	approx. 6 months
Time of recovery	1993 (after about 3 years)
Followed by recession?	yes



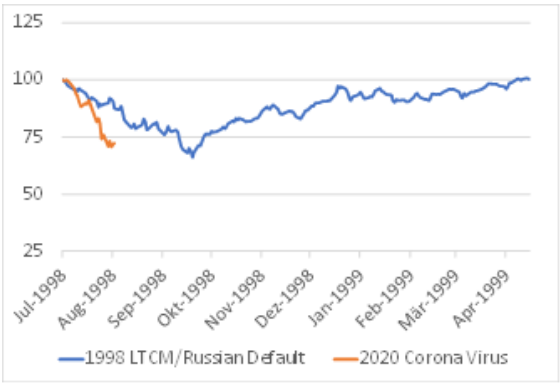
Oil crisis 1973-74

Maximum loss	Ø -51% (per index, from -37% to -92%)
Period of the crash	1972 - 1974 (approx. 2 years)
Duration up to -25% Loss	ca. 10 Monate
Time of recovery	1978/ 1979 (after about 4 years)
Followed by recession?	yes



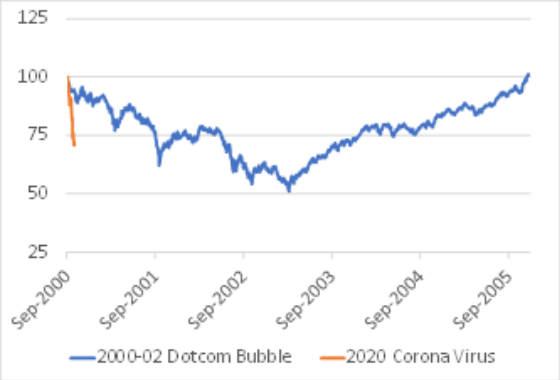
LTCM / Russian Default 1998

Maximum loss	Ø -34% (per index, from -25% to -37%)
Period of the crash	1998 (about 2 months)
Duration up to -25% Loss	approx. 3 months
Time of recovery	1999 (after about 1 year)
Followed by recession?	no



Dotcom Bubble 2000-02

Maximum loss	Ø -55% (per index, from -35% to -78%)
Period of the crash	2000- 2003 (approx. 3 years)
Duration up to -25% Loss	approx. 1 year
Time of recovery	2006 (after about 3 yearrs)
Followed by recession?	yes



Financial crisis in 2008

Maximum loss	Ø -58% (per index, from -52% to -66%)
Period of the crash	2007 to 2009 (approx. 1.5 years
Duration up to -25% Loss	approx. 9 months
Time of recovery	2013 (after about 4 years)
Followed by recession?	yes

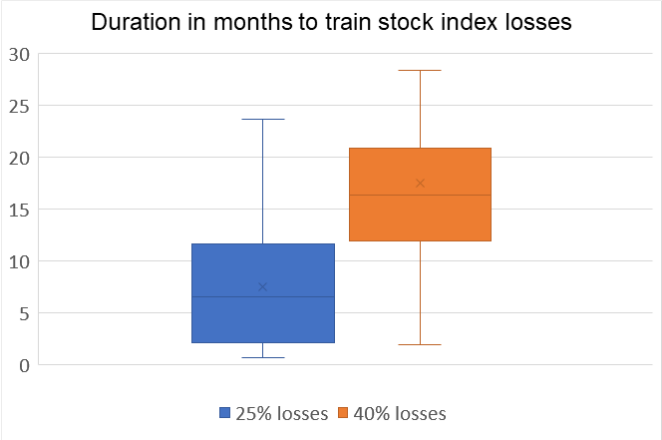
Corona virus 2020 (crisis continues)

Maximum loss	Ø not yet known
Period of the crash	2020 until unknown
Duration up to -25% Loss	approx. 1 month
Time of recovery	unknown
Followed by recession?	unknown, but likely

Major crashes occur delayed, simultaneously and in recessions

When analyzing the properties of these crash phases, recurring patterns are revealed. Historically, the formation of a 25% loss from a previous all-time high always required a lead time. Even the new record holder in this category, the current corona virus crisis, required three to four weeks for this loss.

While in 1929 such a loss occurred quite rapidly in two months, in most historical crash phases it took more than six months on average, in some cases even more than a year. Although the flash crash of 1987 occurred on one day, losses had already built up over a month before it. If we look at the larger loss phases of 40% and more, this trend is even more pronounced. Historically, such losses took on average more than a year to be realized.



The amount of maximum losses in crash periods also depends on whether the first financial market panic was followed by an economic slump. If such crises were followed by recessions, in most historical cases further losses of 30% to over 60% could be observed.

What awaits us now?

Last week the Wall Street Panic of 1929 may have been a speeding ticket, but it need not necessarily result in a comparable crash. Unfortunately, there are currently two ingredients in the Corona cocktail that suggest further losses on the global financial markets. In addition to the simultaneous occurrence of losses on stock markets worldwide, a recession seems unavoidable.
The faster a therapy, a drug or a vaccine can be found, the faster this crisis can be overcome and the world can return to normality. The longer we remain in uncertainty, the greater the potential damage to the global economy. Governments and central banks around the world are now aware of this risk and are taking appropriate measures to limit the risks arising from the crisis. The coming weeks and months will show whether these measures are actually sufficient.

Author

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After studying business mathematics, he worked in quantitative risk and investment management. Currently, his focus is on the development of systematic investment strategies with a special focus on hedging as well as the management of rule-based multi-asset funds.

Important legal advisory

Sources: The analysis is based on the following indices: BEL 20, Nasdaq Composite, DAX, Hangseng, Dow Jones Industrial, MSCI Switzerland, MSCI All Country World, MSCI World, Nikkei 225, SPI, S&P 500, Eurostoxx 50, Topix and Dow Jones Transportation Subscription by Bloomberg Finance L.P.

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