Philequity Corner (May 4, 2020)
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American Bears

A few weeks ago, we discussed different Philippine bear markets, their causes, their performance and duration (see *Different Bears*, 6 April 2020). Today, we will be showing you major American bear markets over the past 100 years. History shows that the performance of global markets, including emerging markets and the Philippines, are closely intertwined with the performance of the US stock market. For purposes of measuring the stock market's performance, we used the S&P 500, except for the Spanish flu bear market, where we used the Dow Jones index because the S&P 500 did not exist yet.

1. **US Subprime Crisis, October 2007 to March 2009 – 56.4% decline**
   Also called the global financial crisis or GFC, this bear market started with a subprime mortgage crisis in the US. Eventually, major banks such as Bear Stearns and Lehman Brothers went under. With the financial system essentially freezing, the world entered into a recession.
2. **Dotcom bubble, March 2000 to October 2002 – 49.1% decline**
   As the world shifted into the Information Age, computer and internet usage grew by leaps and bounds. Web browsers came into popular use, so both retail and institutional investors were eager to invest in any company with ".com" attached to its name. Many investors ignored the growing losses, lack of transparency or high levels of debt, causing internet stock valuations to reach stratospheric levels. The ensuing crash came to be known as the Dotcom bubble.
3. **Black Monday, August 1987 to December 1987 – 33.5% decline**
   This particular bear market was known for one of the worst one-day drops since the panic of 1914 – a 22.6% drop on October 19, notoriously called Black Monday. Though bulk of the plunge occurred on Black Monday, markets were already jittery because of the US-Iran conflict at the time, as well as fears of a currency war.
4. **Stagflation bear or Volcker's Bear, November 1980 to August 1982 – 27.1% decline**
   This bear market came at a time when the US was beset by double digit inflation and slowing growth. In a bid to end the inflationary spiral, Paul Volcker, Fed Chairman at the time, raised interest rates all the way to 20%. Though Volcker succeeded in taming inflation, the US entered into a deep recession thereafter.
5. **Arab oil embargo, January 1973 to October 1974 – 48.2% decline**
   This started with a conflict between a coalition of Arab states and Israel, culminating in the Yom Kippur War. Israel eventually gained the upperhand with the support of Western nations. However, this angered OPEC, which declared an oil embargo. By the time oil peaked, it surged almost 400%. This caused an inflation shock, with a lasting impact on both politics and the global economy. This was also when the Watergate scandal engulfed Richard Nixon's administration, forcing him to resign.
6. **Vietnam war, November 1968 to May 1970 – 36.1% decline**
   Many domestic issues hounded the US during this time, but foremost of them was its growing involvement in the Vietnam War. High inflation was cured with raising interest

rates, which eventually caused a recession. By the time the war ended, more than 58,000 Americans died in the US-Vietnam conflict.

7. **Post-World War II recession, May 1946 to June 1949 – 29.4% decline**
   As workers transitioned from wartime production to peacetime manufacturing, most Americans decided to increase their savings. With demand falling off sharply, the economy teetered into an "inventory recession". Stock market volume dropped more than 90% at one point as retail investors became disinterested in both spending and investing.
8. **World War II, October 1939 to April 1942 – 43.5% decline**
   With Germany succeeding in its blitzkrieg of Poland, it became clear that World War II was upon the world. Investors ran for the exits, with markets falling sharply on events such as the attack on Pearl Harbor. Fears that Allied Forces would be beaten by the Axis contributed to the bearishness. All told, more than 80 million people died in World War II.
9. **The Great Depression, September 1929 to June 1932 – 86.2% decline**
   The Great Depression started in the US but eventually spread to the rest of the world. In fact, it is the longest, deepest and most widespread recession of the 20th century. Global GDP contracted 15% and global trade fell by more than 50%. The ensuing bear market is one of the most studied and most infamous in history.
10. **Spanish flu and World War I, October 1916 to November 1917 – 32.1% decline**
   When looking for a pandemic similar to COVID-19, epidemiologists often point to the 1918 Spanish Flu. This bear market started in 1916 because of World War I, which accounted for about 20 million deaths. Although later research shows that the Spanish Flu started in 1917, most of the deaths due to disease actually happened during the second wave of the pandemic in 1918. The Spanish Flu infected about 500 million people, or 1/3 of the world population at the time. At least 50 million people eventually died due to Spanish Flu.

Learning from past American bears

Studying past bear markets can guide investors in making investment decisions. Looking at the major bears listed above, the declines ranged between 27% to 86%. The duration of these bear markets was as short as 5 months and as long as 3 years. The current coronavirus bear market started February 19, 2020 and hit a low on March 23. The S&P 500 fell from as high as 3,393 to an intraday low of 2,191 – a drop of 35.4%. The PSE index hit an intraday low of 4,039 on March 19.

Have we seen the low? Many major houses have concluded that the market has reached bottom last March 23. We believe we are in a bottoming-out process but the market will continue to be volatile. A major risk is a 2nd wave similar to what happened during the Spanish Flu, which may cause another downturn. The direction of the market will be dependent on the effectiveness of lockdowns and social distancing, the efficacy of a treatment or cure, and ultimately, the invention of a vaccine.

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