ECONOMY

A Positive Outlook Is Not Out of the Question

THINK STRATEGICALLY:

A Historical View of Market Crashes and their Recoveries

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While the stock markets have been falling dramatically and losing billions of dollars in value, anyone with a 401(k), individual retirement account, Keough plan, college savings fund, investment account or any other instrument tied to the global markets has a profound economic reason to be concerned.

What is a Stock Market Crash?

Every time a stock market crashes, it is the result of a series of economic pressures and events that make investors react emotionally because of the horror of losing money.

Also, there are occasions when a series of negative market news sometimes act as the ignitor to set off events that drive a market crash.

While there might not be an official historical timeframe of crashes, we will discuss the most significant ones from 1987 to the present, highlighting the losses and the recovery following the crash.

1. October 19, 1987, the Black Monday: Ushering in the first financial crisis for the global markets, the Dow Jones Industrial Average lost 511 points and fell 22.6 percent—up to that point, the most significant single-day stock market decline in history. However, it took until January 25, 1989, for the market to recover and close up 0.85 percent, and by December 31, 1989, the market was up 22.54 percent.

2. July 1990 Recession: Also referred to as the Desert Storm recession following the invasion of Kuwait by Iraq, taking the global price of oil to lofty levels. This Recession began in July 1990 and ended in March 1991. However, the somewhat mild and short recession was long enough to cost George H.W. Bush his re-election. By July 31, 1990, the Dow Jones was at -2.54 percent; however, by December 31, 1991, the Dow had recovered, for a 6.33 percent return.

3. The Dot-com bubble Burst of 2000: The hubris developed during the late '90s over anything related to the then-nascent internet. The period was marked by the creation of hundreds of companies that, although they had outsized stock valuations, their business models could not generate profits. Before the bubble burst on March 10, 2000, the fervor had made the Nasdaq Composite triple in value in only 18 months, to close at 5,048.82; by December 31, 2000, the Nasdaq had fallen to 2,470.51 a 51.07 percent drop. Some 15 years later, it took until March 20, 2015, for the Nasdaq to close again at 5,026.42.

4. The Great Financial Crisis of 2007-2009: This financial crisis happened as the real estate and housing bubble burst, taking hundreds of billions of dollars in value, forcing the fire sale of Bear Stearns, Merill Lynch and Countrywide, among many others. We also saw the bankruptcy of Lehman Brothers and thousands of banks that took the global financial system to the brink of collapse. As the Great Recession was unfolding, the Fed had increased interest rates in two years from 1.25 percent to 5.25 percent, leading to the worst housing default in history as subprime borrowers could not meet rising payments that were interest-only loans or adjustable rate mortgages. The Dow Jones closed on December 31, 2007, at 13,264.82, and on June 30, 2009, it had closed at 8,447.00, down 36.32 percent. However, from that point on, just 12 months later, on June 30, 2010, the Dow had a 15.71 percent return.

5. The 2020 COVID-19 Global Pandemic Crash: As we all know, this is the most recent example of a market crash, one that was caused by the effects of panic selling due to the exogenous shock that was the pandemic. On March 17, 2020, the global pandemic took hold. The Dow closed at 21,237.38; a week later, the Dow closed on March 24, 2020, at 18,591.93, a drop of 2,645.45 points. However, by March 17, 2021, the Dow had risen 55.46 percent to close at 33,015.37 after 12 months.

6. 2022 Global Markets: As the new year ushered in, the markets were, by January 4, already rising from the 2021 highs; on that date, the markets closed as follows:

– Dow Jones Industrial Average closed at 36,799.55
– S&P 500 closed at 4,793.54
– Nasdaq Composite closed at 15,622.72
– Birling Puerto Rico Stock Index closed at 2,995.54

However, by May 20, 2022, the four indexes had fallen dramatically; let's examine:

— Dow fell 5,537.75 points compared to January 4, a decrease of 15.05 percent.
— S&P 500 fell 892.18 points compared to January 4, an 18.61 percent drop.
— Nasdaq closed at 11,354.62, falling 4,268.10 points compared to January 4, a decrease of 27.32 percent.
— Birling Puerto Rico Stock Index fell 318.57 points compared to January 4, dropping 10.64 percent.

Having studied the data, we can conclude that markets recover quickly; having defined long-term financial goals, diversification, patience and a trusted adviser will serve you well in trying times.

What's ahead for investors in a "V" or "U" shape market rebound?

The stock markets, as we discussed, are down and have registered seven weeks of losses. The S&P 500 flirted with bear market territory on May 20 during the session, given it was 20 percent down, only to close just above -18.14 percent lower; however, it is just 1.86 percent away from a bear market, not the most fantastic position.

A recession is not in our rearview mirror for the next 12 to 18 months. We continue to experience solid economic numbers, with excellent job demand, low unemployment near pre-pandemic levels at 3.6 percent, U.S. sales growth of 6.73 percent, and strong corporate earnings that although not double digits, growth is growth.

In conclusion, should the market conclude that the current environment is as we think it is a nonrecessionary market correction, the historical data offer a positive outlook for periods such as these, with returns that average 17 percent in the six months afterward.

We see a favorable risk-reward with a substantial upside for investors as the recession fears are what has driven the markets to fall so sharply. We view a "V" shape rebound for all the reasons and use the six examples of similar market downturns.

The Week in Markets: Fears of a recession, lower than expected earnings cause panic

Last week, markets were spooked by earnings reports from key retail giants like Walmart and Target. Both companies reported missed consensus estimates with lower-than-expected operating margins, as inflation pressures significantly affect them.

– Target (TGT): Its stock fell 37.39 percent to close on May 20 at $155.36.

The company reported first-quarter earnings with revenues of $25.2 billion, up 4 percent year-over-year, and net income of $1.3 billion, down 43.3 percent. The company claims inventory impairment and higher operating costs affected it.

– Wal-Mart (WMT): Its stock fell 25.43 percent to close on May 20 at $119.20.

The company reported first-quarter earnings with revenues of $141.6 billion, up 2.4 percent year-over-year, and net income of $5.3 billion, down 23 percent. The company said its bottom-line results were unexpected and reflected the current operational environment; high inflation, especially in food and fuel, added undue pressure on margins.

We highlight these earnings misses as they best reflect rising operational risks in business across the U.S. as inflation, coupled with global supply chain disruptions and rising interest rates, will impact many companies.

Weekly Market Close Comparison	5/20/2022	5/13/2022	Return	YTD
Dow Jones Industrial Average	31,261.90	32,196.66	-2.90%	-13.97%
Standard & Poor's 500	3,901.36	4,023.89	-3.05%	-18.14%
Nasdaq Composite	11,354.62	11,805.00	-3.82%	-27.42%
Birling Puerto Rico Stock Index	2,676.87	2,708.46	-1.17%	-7.02%
U.S. Treasury 10-Year Note	2.78%	2.93%	-5.12%	1.35%
U.S. Treasury 2-Year Note	2.60%	2.61%	-0.38%	1.40%

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. *Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*