McIntyre Partnerships

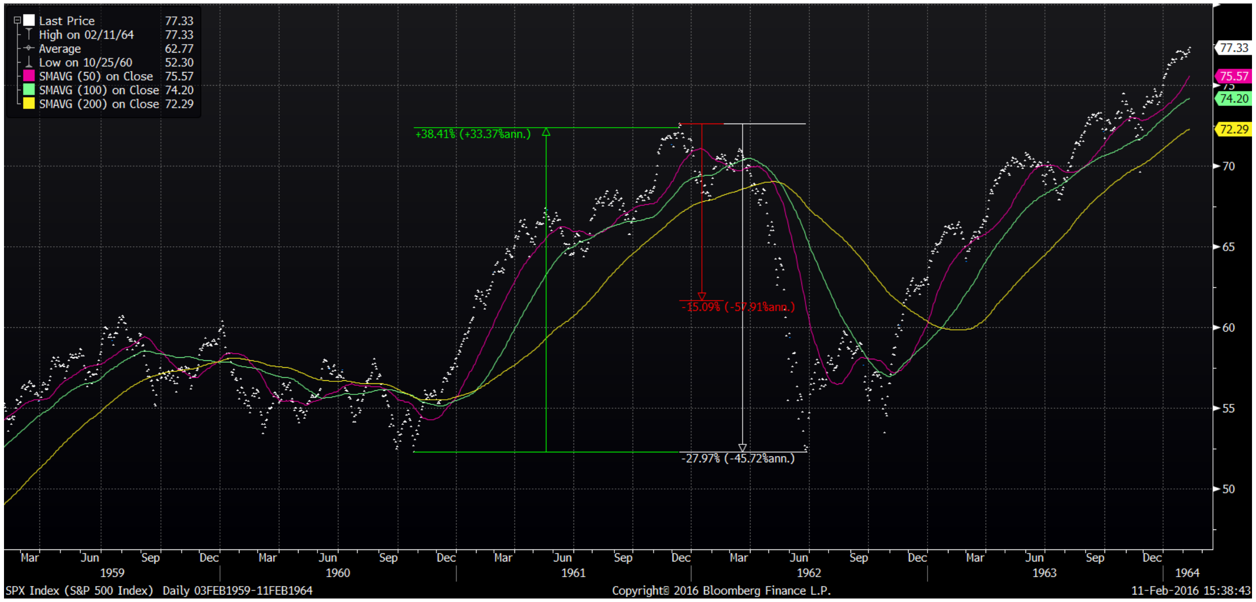
Historical Correction Charts

chris@mcinyrepartnerships.com

- Overall Since 1945
    - >10% selloffs – 37
    - >13% selloffs – 33
        - 13-17% selloffs – 15
        - >17% selloffs – 18
    - >17% selloff statistics
        - 17-22% selloffs – 9
        - >22% selloffs – 9
    - 13 recessions since 1945
        - 7 recession selloffs = 15-22% corrections
        - 6 recession selloffs = >22%
    - >20% recession selloffs
        - 3 correspond with >500bps Fed rate hikes in under two years (1968, 1974, 1980)
        - 1 is Dot Com bubble, where earnings dropped 15% but multiple 27x to 15x
        - 1 is Great Recession, where multiple fell from 16x to 13x but earnings fell 35%
        - 1 is COVID Crash, which last only a few months
- "The Bad Ones" – >20% selloffs
    - 6 Recessions, 3 Panics
        - Every "bad" recession selloff took over two years peak-trough and started with a negative Equity Risk Premium (ex. '07)
        - Every "bad" panic followed a >40% SPX move in prior 18 months
    - Panics
        - 1962 – 26% - "Kennedy Slide" – Following a 40% rally the prior year, selloff took three months. Rebounded quickly.
        - 1946 – 26% - Post World War II – Following a 75% rally, fears of inflation, a return of the Great Depression economy, and the end of QE during 1930s-1940s took off. No recession. Took two years to recover.
        - 1987 – 34% - "Black Monday" – Stocks crashed after a 50% move in first half of year. Selloff took three months.
    - Recessions
        - 1980 – 27% - 1980 Recession – Volcker took rates up and caused a recession. Took place over a two-year period.
        - 1968 – 36% - Inflation increased. Fed raised rates aggressively. Stocks were expensive. Took two years.
        - 1973 – 48% - Fed raised rates massively to fight inflation, huge recession, oil crisis, end of Bretton woods. Took two years. Stocks bounced hard in year after.
        - 2000 – 49% - Dotcom and 9/11. Took three years.
        - 2007 – 57% - Great Recession. Took two years.
        - 2020 – 33% - COVID Crash. Took five months.

>20% Selloffs

1962



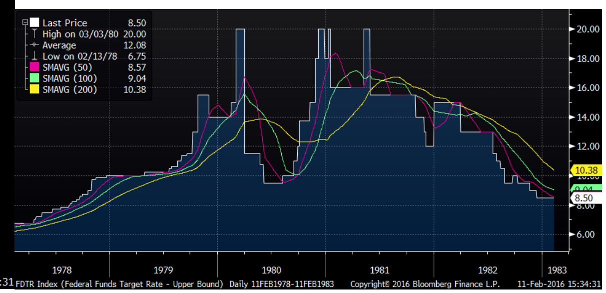
"The Kennedy Slide" – Basically, a panic for no reason. The Fed wasn't hiking rates and macro data was fine. The market began to selloff after a large rally, broke some technical levels, and selling accelerated. During the worst of it, there were also technical glitches several days and quotes became difficult, which increased panic. Selloff lasted three months.

Of note, the three large "mainly panic" selloffs (1946, 1962, 1987) follow huge surges in the preceding 6-18 months.

1946

WWII was a “unique” period for the US economy, and post WWII was no different. US GDP had a large contraction in 1945 when government war spending ended. However, the private sector boomed. In 1945 and 1946, the market surged on hope about rebuilding USA and Europe. However, in mid-1946 government price controls ended and inflation surged to a 25% annualized pace, causing a crash in the market. The Fed had been artificially subsidizing rates and buying treasuries in the late 1930s and into the 1940s – aka QE – so people feared the as QE ended in response to surging inflation a return of Great Depression was possible. Ultimately, a modest -1.7% recession occurred in 1949.

1980



The Double Dip of the Early 1980s. Paul Volcker became Fed Chair and signaled his intention to stamp out inflation, which had been the cause of low returns and weak real GDP growth in the late 1970s. Stocks at first reacted quite favorably and reweighted from a record low 6-7x forward PE to 10x in late 1980. However, the significant rate increases caused two recessions – early 1980 and late 1981. A combination of a 15% reduction in SPX earnings from 1981 to 1983 and the availability of long-term US government bonds with yields in the mid-teens dropped the market 26% over two years. Once Volcker signaled the end of high rates in 1982, stocks and bonds rallied significantly.

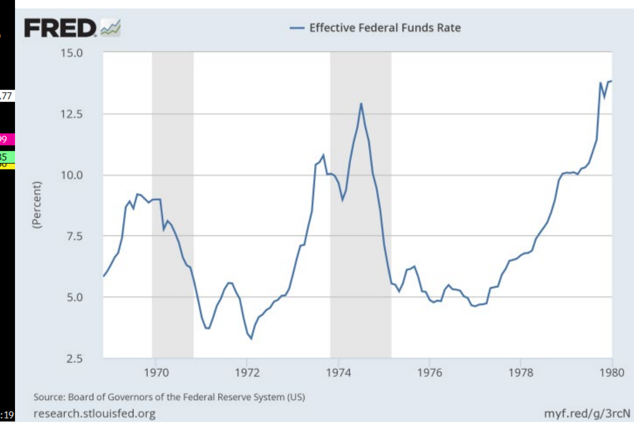
1987

Crash of 1987 – Just a panic. Rates increased, but only modestly. Again, the panic followed a huge 50% move in H1 1987.

1968

Market fell 36% following an up 45% move the prior two years. The late 1960s were the “Nifty Fifty” era. Stocks were quite expensive – computer stocks had an average PE of ~114x in late 1968, the broader SPX was ~19x forward EPS. Further, the Phillips Curve tradeoff between unemployment and inflation had run its course. Inflation had risen to 6% by mid-1969 vs sub-2% in 1965. To fight inflation, the Fed hiked the Fed Funds rate from 4% in Jan 1968 to 9% in Jan 1970. The combination of a large increase in the risk-free rate, extremely high PE multiples in certain sectors – many tech stocks crashed >50% in a day in April 1970 – and a modest economic contraction (-0.6%) drove a 36% selloff, though 15% of the 36% lasted for only three months – August-October 1970. SPX earnings contracted a modest 10% in 1970.

1973



The Crash of 1973-1974. Basically, inflation was a significant problem in the early 1970s – Bretton Woods ended, Nixon enacted price controls, etc. – but began to surge in mid-1973. The US economy was basically at max capacity while demand increased. Industrial production only grew 3% in H2 1973 yet demand and credit increased close to 10%, which caused inflation. In response, the Fed hiked rates from 5.5% in early 1972 to over 10% in H2 1973. Then in October 1973, OPEC announced an embargo and oil prices went from $3 to $12 per barrel in 6 months. At the same time, US government spending contracted into 1974 as Vietnam wound down. As inflation picked up even more in H1 1974, the Fed felt compelled to hike rates despite increasing job losses. The Fed essentially drove the US into a modestly steep -3.6% recession to calm inflation.

To make matters worse for stocks, entering 1973-1974 the market was expensive relative to long term bonds – the ERP was negative from 1968-1973. Nifty Fifty stocks were leading the market and entered 1973 with an average PE of 40x. It was a nightmare scenario for stocks.

2000

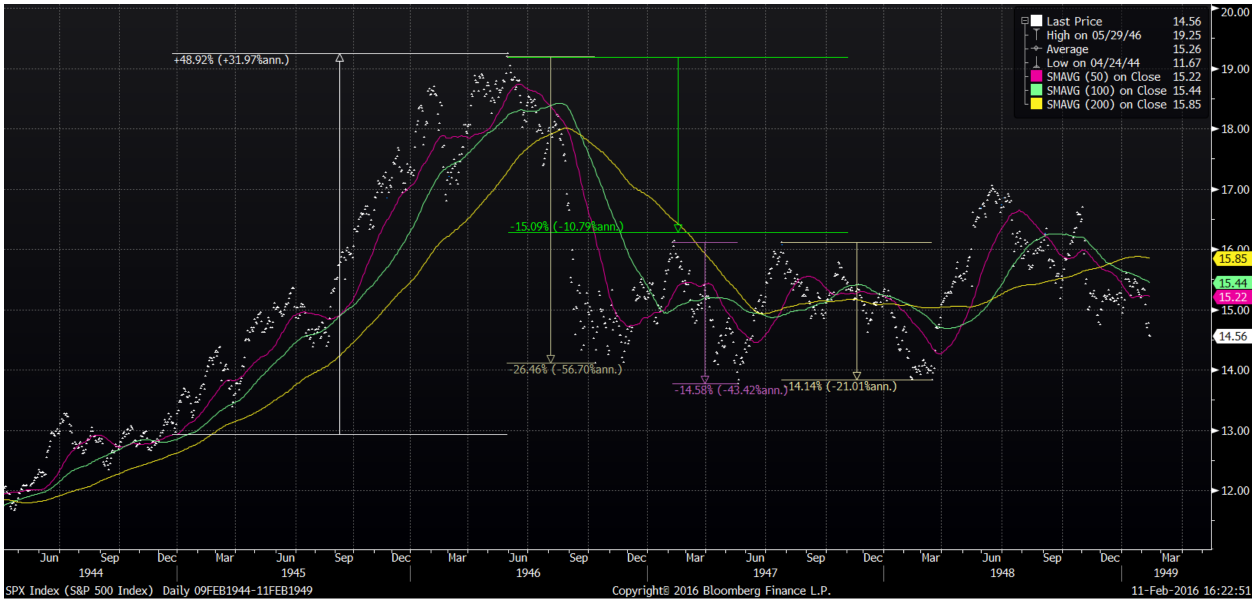
The Dot Com Bubble Crash/September 11th – The end of a stock market bubble combined with a mild recession, particularly in aerospace, dropped the SPX 50%. In contrast to the 1970s and early 1980s, rates played little role in the 2000-2002 slump. The primary culprit was excess valuations from 1997-2000. The SPX forward PE multiple expanded from 15x at the beginning of 1997 to an all-time high 27x in mid-2000. Most of the SPX contraction from the end of 2000 to late 2002 is attributable to multiple compression back to 15x. The 2001 recession was relatively mild and SPX earnings only fell 15%.

2007

We all know this….

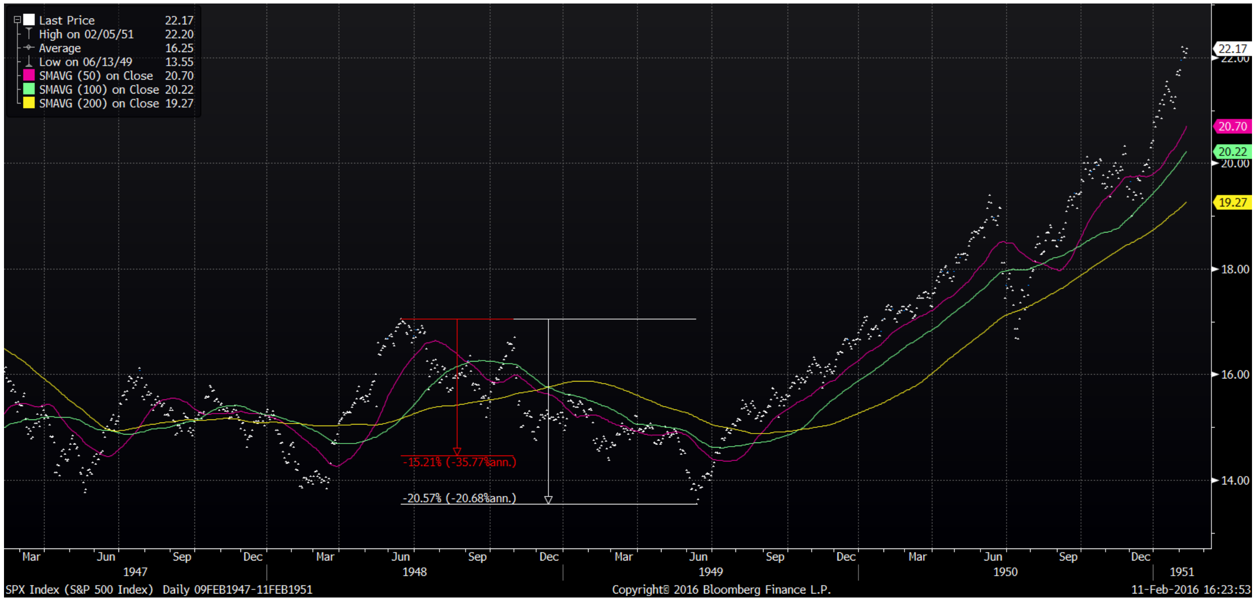
Charts of All the Corrections

1946 (Three Corrections)



See >20% correction section.

1948

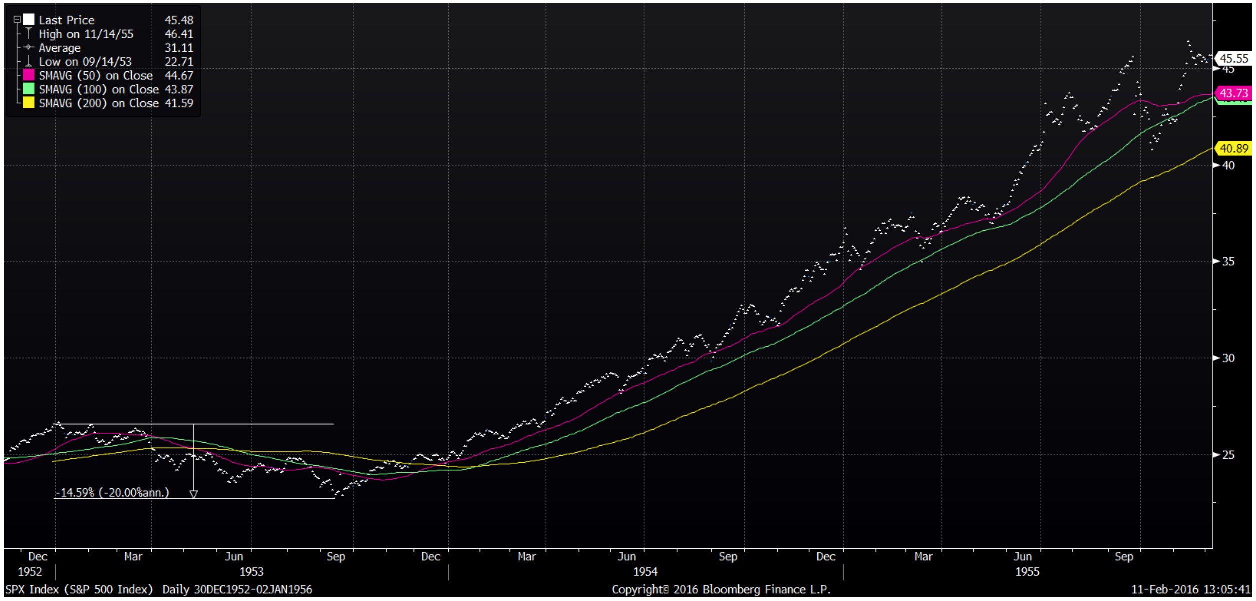


Just trading around in a range as the US goes through a huge economic and political change. We had a mild recession in 1948-1949. Again, only a 20% correction on a recession. Whole move took a year.

1950

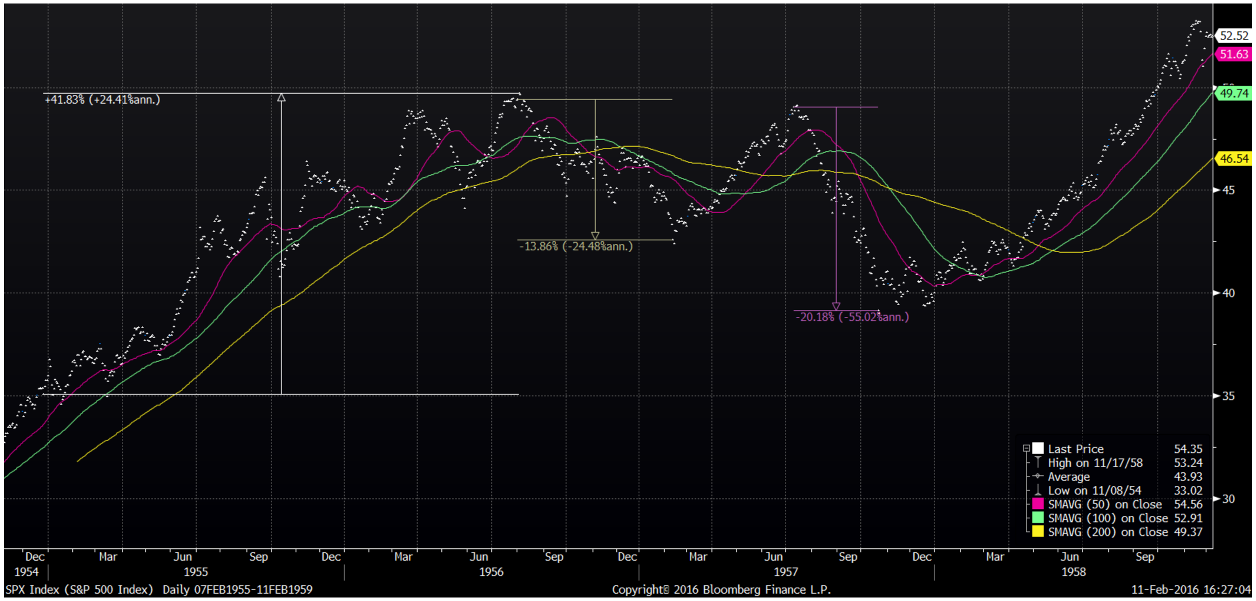
Start of the Korean War. The market corrected only 14%.

1953



US had a mild recession in mid-1953. Jobs rolled over in late 1953, but market had already adjusted with a 15% correction. More realistically, I think this is just a modest pullback after digesting the market up >100% in the previous three years. See previous chart.

1956 (Two Corrections)



After an up ~40% in 1954 and up ~40% from 1955 to mid-1956, the market went nowhere for two years and had two 15-20% corrections. 1958 was the “Eisenhower Recession.” The Fed was tightening in 1955 to 1957, from 1% to 3.5%. In mid-1957, jobs data began to roll over, the fed actually mistakenly continued to hike in September 1957, and unemployment was shooting higher by December 1957 into June 1958. Autos were particularly hard hit. In response, the Fed lowered rates back to 1% in H1 1958, Congress passed some stimulus, and market was at all-time highs by late 1958.

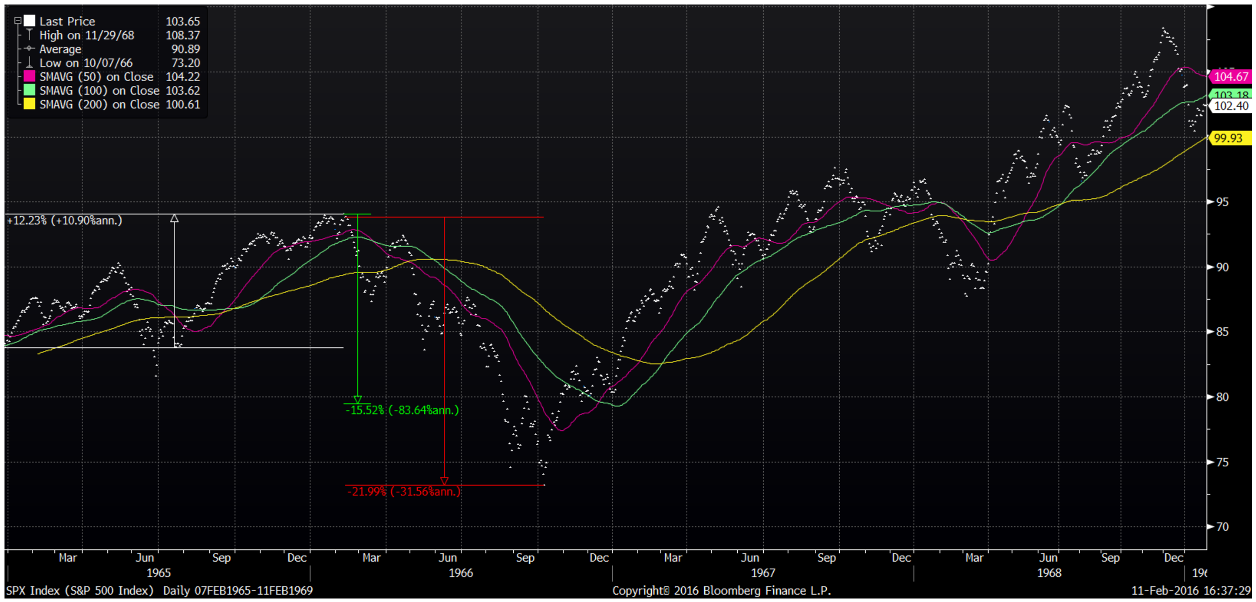
1959

After a 52% rally from Jan 1958 to June 1959, the market pulled back 14% over a 1.5-year period. The Fed raised rates back to 3% starting in mid-1958 through mid-1959.

1962

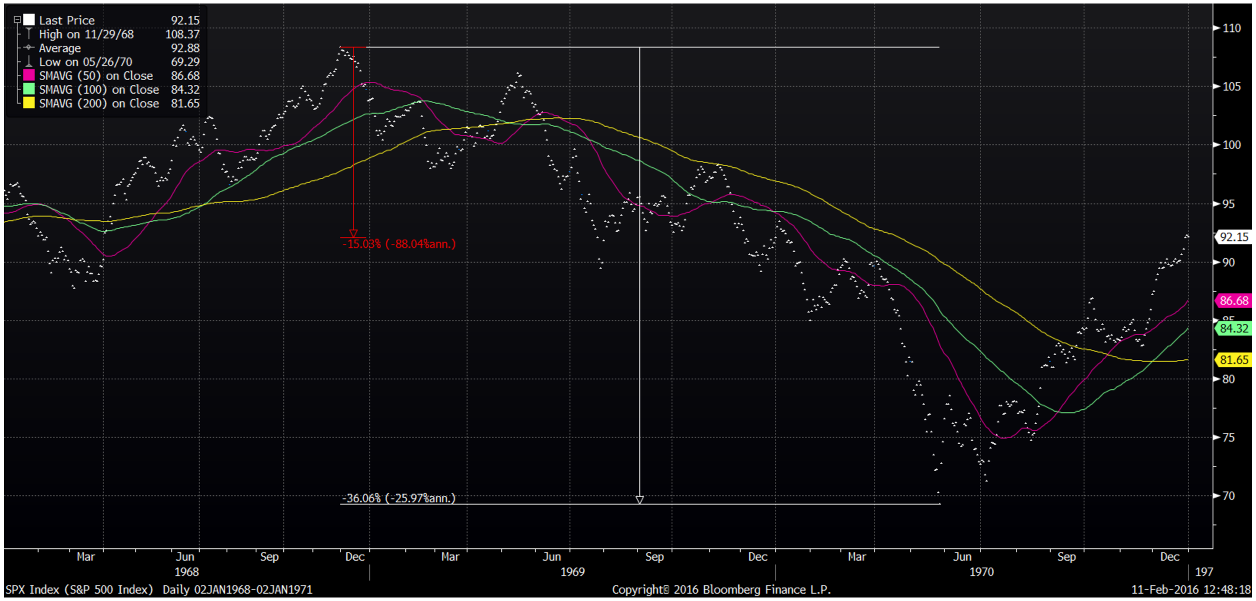
One of the greater than 20% selloffs. Kennedy Slide. See above.

1966



A 20% selloff after a modest up 12% in 1965. Basically, it's a forgotten correction. The SPX was doing quite well from 1963-1966, the Fed hiked rates modestly from 4% to 6% which made people nervous, Vietnam and Johnson's Great Society programs were pushing up government spending, and people just panicked. Market sold off over 6 months, including a >10% August slide. There were some modest credit issues, particularly in the muni market, but no contagion. After the down 20% move, the market just went right back up.

1968

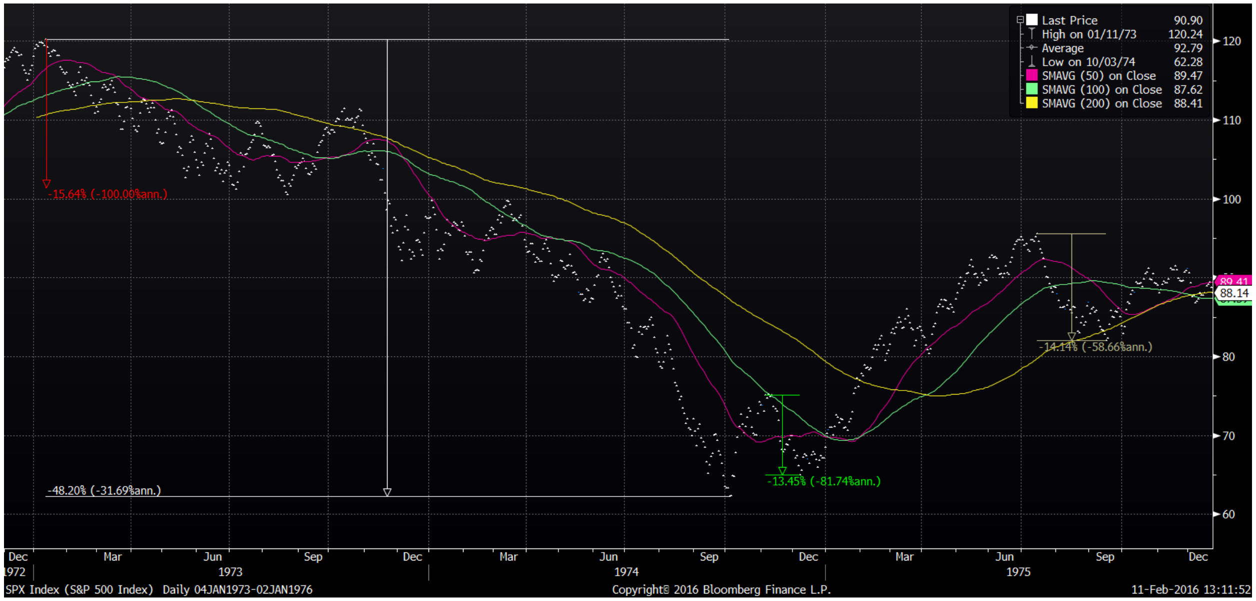


See >20% selloff section.

1971

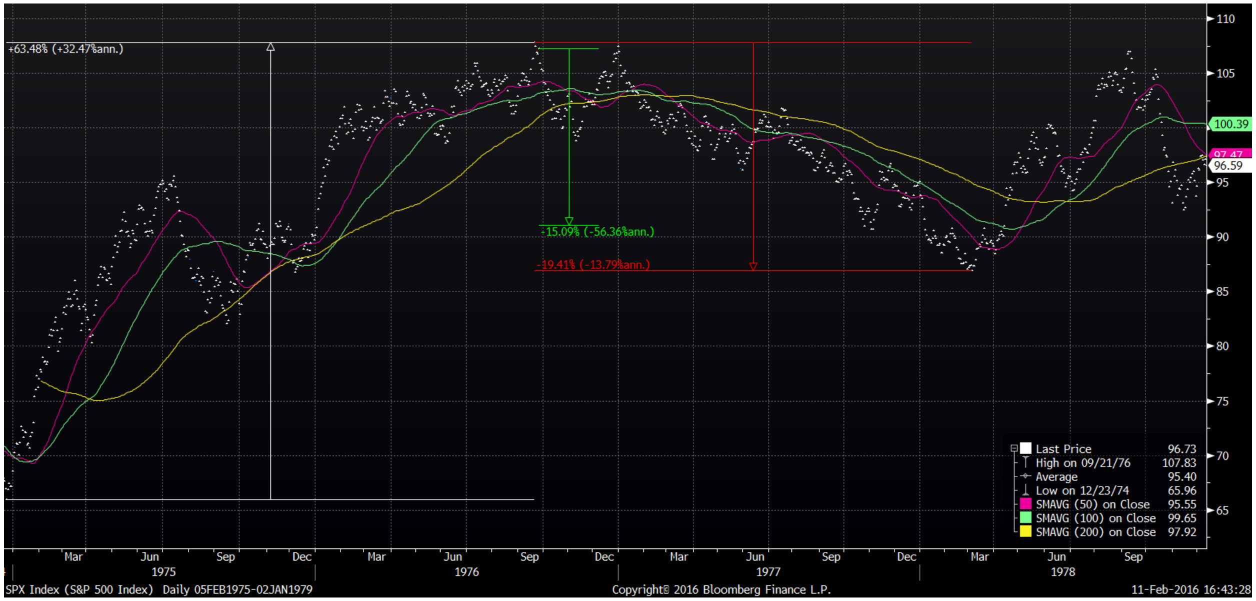
A modest 14% pullback over a six-month period following a huge rally off the 1970 lows.

1973 (Three Corrections)



See >20% correction section.

1976

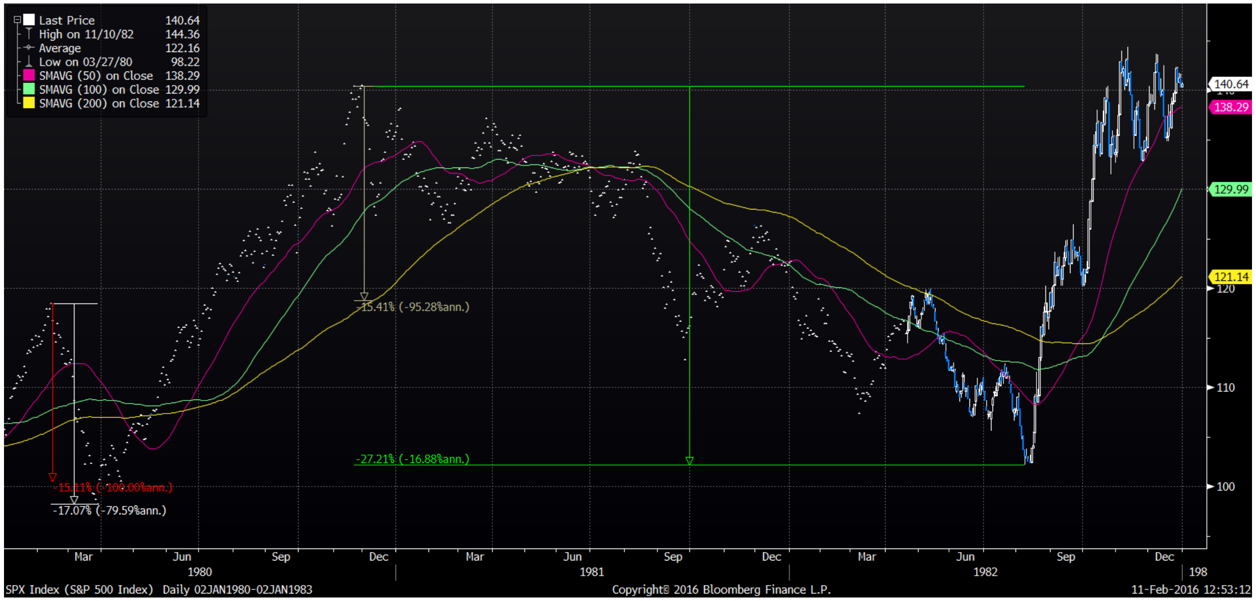


After a huge 18-month, 65% rally off the 1974 lows, the market pulled back a modest 20% over a two-year period. The late 1970s were a period of cheap stock prices, high bonds yields, slow-ish GDP growth, and general fears about inflation.

1978

Small, ultimately meaningless 14% pullback.

1980 (Two Corrections)

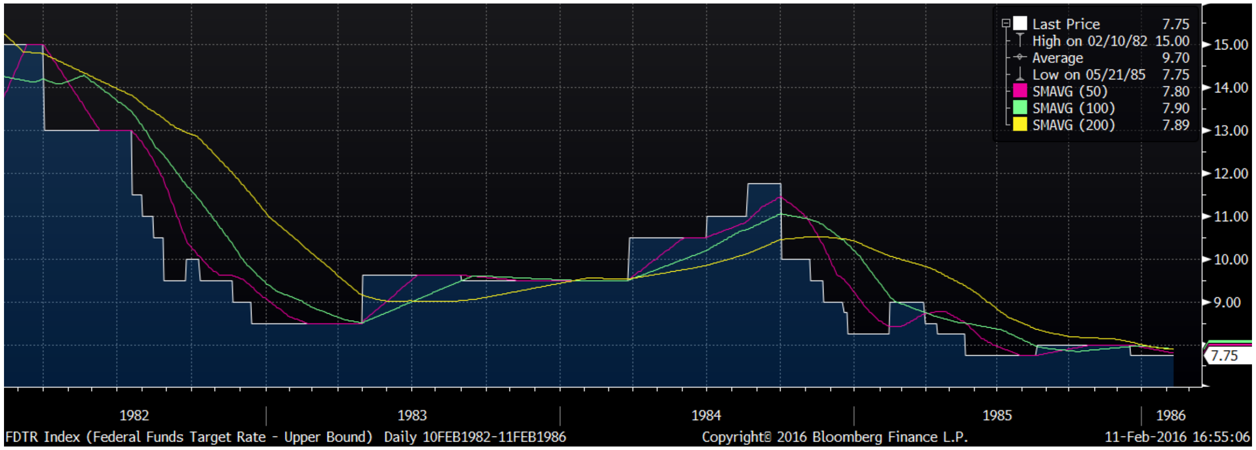


First pullback just was market up and down 20% in six months. See >20% correction section for larger correction.

1983

Market pulled back 14% over one year following an up 65% move in the previous 12 months. Economy was fine. Rates went up a bit during correction, but nothing major.

Rates in Early 1980s



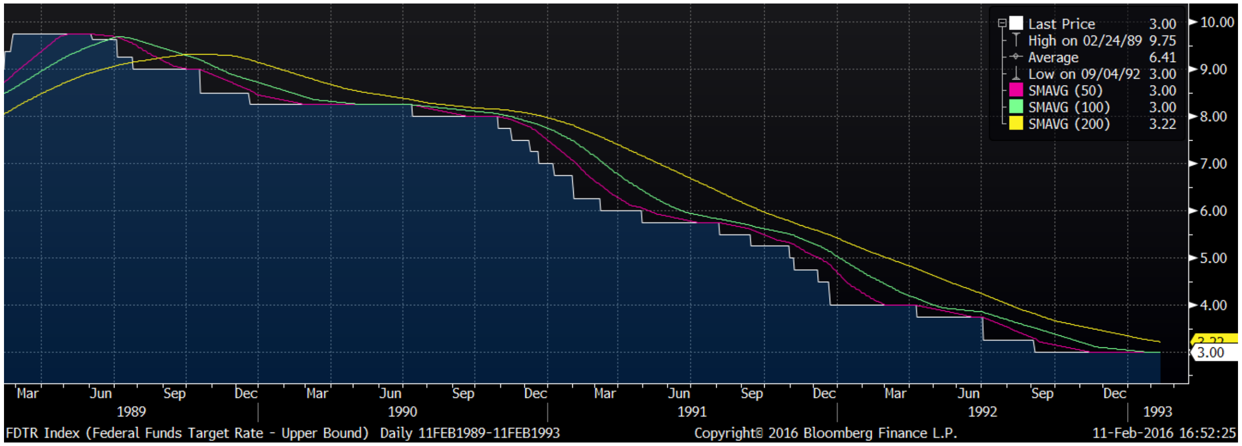
1987

See >20% correction section.

1990

Gulf War/1990 recession. Iraq's invasion of Kuwait was August 2nd, 1990, and the SPX fell 14% that month in response. Oil prices doubled rapidly from \$19 in July 1990 to \$40 in October. The result was a modest -1.4% recession. From a market perspective, the 1990 recession had only a peak to trough 20% pullback following an up 30% in 1989. Fed began process of lower rates in late 1990, which along with the military response to Iraq and falling oil prices in November/December 1990 sparked the rally into 1991.

Rates in Early 1990s



1998

Asian Financial Crisis in 1998. 20% pullback. Market was up 37% in 1995, 23% in 1996, 33% in 1997, 28% in 1998, and 21% in 1999.

2000 (Two Corrections)

End of a massive bull market and SPX at all time high valuations. See >20% correction section.

2007


Last Price 1115.10
High on 10/11/07 1576.09
Average 1214.75
Low on 03/06/09 666.79
SMAVG (50) on Close 1094.38
SMAVG (100) on Close 1067.92
SMAVG (200) on Close 984.35
-15.37% (-99.95%ann.)
-57.69% (-45.84%ann.)
Volume 0.546B
1600
1400
1200
800
600
1115.10
1067.92
984.35
2B
0.896B
0.546B
0
Mar Jun Sep Dec Mar Jun Sep Dec Mar Jun Sep Dec
2007 2008 2009 201
SPX Index (S&P 500 Index) Daily 02JAN2007-02JAN2010
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2010-2011 (Two Corrections)

Two European financial crises. First was 17%. Second 20%.