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Revisiting the Global Financial Crisis: Decline, Recovery and an Aging Bull

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Snapshot

- The U.S. equity market reached bottom almost exactly one year after the collapse of Bear Stearns; the S&P 500 Index's value was more than halved just 51 weeks after the failed financial giant helped spark the global financial crisis.
- Nine years from the bottom, the S&P 500 Index increased by more than 300%.
- This kind of hindsight emphasizes how important it is to stick to a long-term investment plan through the peaks *and* valleys of market cycles.

Ten years have passed since the U.S. housing bust deteriorated into a full-blown global financial crisis. The first major domino to fall was Bear Stearns; with losses snowballing on mortgage-related investments amid a multi-year decline in real-estate prices, lenders and counterparties began refusing to conduct business with the financial giant. Bear Stearns' inability to access credit amid a liquidity crunch raised doubts about its solvency, reinforcing lender hesitations. As it teetered on the brink of bankruptcy, many worried that the demise of such a mammoth financial player would bring down the entire industry—provoking the Federal Reserve to intervene on March 16, 2008, purchasing nearly $30 billion of Bear Stearns' assets to help facilitate an acquisition by JP Morgan Chase.

As we now know, this was not the end of the financial-market meltdown story. It turned out that our globally interconnected financial system had major weaknesses, and its dependence on a handful of major institutions—whose losses left them at risk of default—had the disastrous effect of freezing financial activity worldwide. The Federal Reserve's involvement in facilitating Bear Stearns' acquisition turned out to be the first of what would eventually become a series of extraordinary interventions and policy decisions over the coming years (after having already started a rate-easing cycle in the summer of 2007 in response to a weakening housing market).

A Shotgun Marriage Starts the Race to the Bottom

Nine years ago, almost exactly one year into the shotgun marriage of Bear Stearns and JP Morgan Chase, the U.S. stock market reached its low point; on March 9, 2009, the S&P 500 Index was priced at less than half of what it had been 51 weeks earlier.

Investors had not suffered such dramatic wealth destruction in the broad stock market in 70 years. Many questioned the wisdom of staying invested as they watched their retirement nest egg drop in value, day after day.

And yet, four years from its low, the S&P 500 Index had erased the entire decline. And by the ninth anniversary of hitting bottom, it increased from that point by more than 300%.

The chart on the next page details the chain of events that caused the global financial crisis, as well as the actions that helped the U.S. stock market climb toward an eventual recovery.

An Extended Timeline of the Global Financial Crisis

*S&P/Case-Shiller 20-City Composite Index.

SEI's View

With the current bull market just months from setting a record of its own with an all-time high price on the S&P 500 Index, we cannot claim to know what the future holds—but suspect that investors are starting to think about what happens when this epic run concludes. While we can look at the past and see many events from the crisis that rightfully would have made investors uncomfortable or downright horrified, a decade of context tells us that the decision to sell and walk away amid the depths of the crisis would only have generated two questionable outcomes:

1. Turned temporary losses into permanent ones

2. Created a difficult task in determining when and how to reinvest

The benefit of hindsight makes clear just how important it is to have well-defined personal financial goals—and a solid long-term investment plan designed to remain on course through market peaks *and* valleys.

Index Definitions

S&P 500 Index: The S&P 500 Index is a market-capitalization weighted index that consists of 500 publicly traded large U.S. companies that are considered representative of the broad U.S. stock market.

Important Information

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