

# Equity Strategy Perspectives

**How did markets perform during global economic disruptions and pandemics?**

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*19<sup>th</sup> March 2020*

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Covid-19's impact on the market has been widely compared to global shocks we faced earlier, and more recently to the World Wars. In this report we look at how the S&P 500 and the ASPI performed during seven disruptions which took place over the last two decades. We have also looked briefly at two additional indices from India and Indonesia, which are usually more exposed to global markets than Sri Lanka, for a more comprehensive analysis.

- **How intense the crisis is, matters:** Whether it is a financial crisis or a pandemic, how deep and/or widespread it is can generally affect how the stock markets react to it. However, there can be exceptions.
  
- **Market's reaction to Covid-19 has been much stronger than past pandemic situations during the last two decades:** Since the 19th of February, the S&P 500 has fallen 29.2% as at 18th March, while the ASPI fell 16.6% up to 13th March (BSE Sensex India -30.1% and JKSE Indonesia -27%). These losses for the S&P 500 and ASPI are already higher than what was reported during previous pandemics such as SARS, Swine Flu and Ebola, but the economic impact of those were much lower than even what we have seen so far during Covid-19.

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Right now, we feel it's best to look at the market's reaction to the virus in the framework similar to that of a war. A [statement by the President of France](#) saying “we are at war” gives context to this.

- **The ASPI is not isolated during global crises:** Contrary to the general line of thought in the past that the ASPI may not be as affected as global indices during crisis situations, the fall in the ASPI has been quite similar in magnitude in many instances. Therefore, global market movements will have a heavy bearing on how the ASPI will move during this time too.

## Movement of indices since the S&P 500 started falling on 19<sup>th</sup> Feb

The S&P 500 had started its downward trajectory from 19<sup>th</sup> February 2020, while worries about Covid-19 too became more pronounced since the last week of February.

Index	Time period	Fall
S&P 500	19 <sup>th</sup> Feb – 18 <sup>th</sup> Mar	(29.2%)
ASPI – Sri Lanka	19 <sup>th</sup> Feb – 13 <sup>th</sup> Mar	(16.6%)
BSE Sensex - India	19 <sup>th</sup> Feb – 18 <sup>th</sup> Mar	(30.1%)
JKSE - Indonesia	20 <sup>th</sup> Feb – 18 <sup>th</sup> Mar	(27.0%)

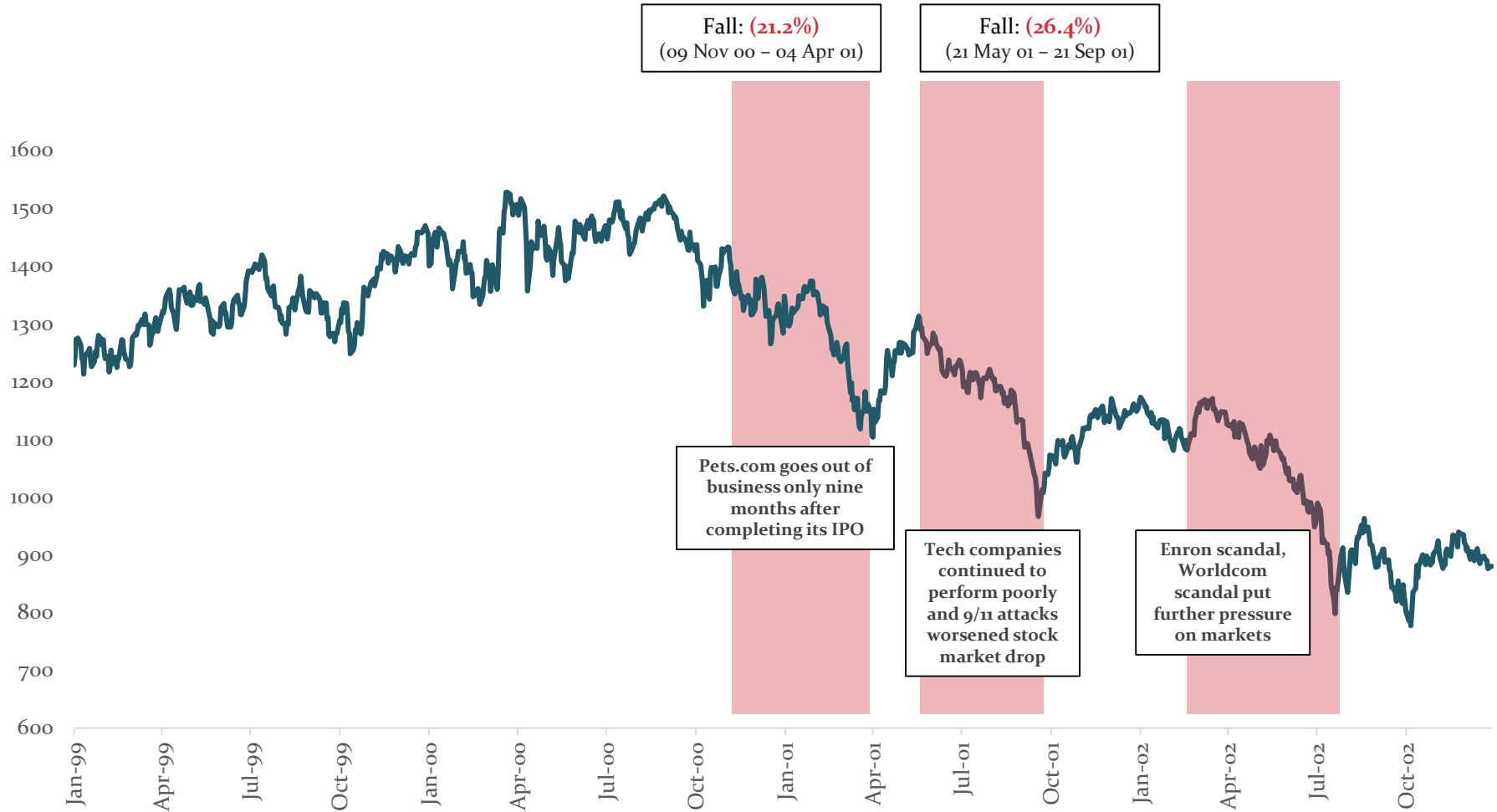
- The subsequent slides consist of charts showing the movement of stock indices : S&P 500, ASPI (Sri Lanka), BSE Sensex (India) and JKSE (Indonesia) during the following global disruptions.
  - 1) [Dot.com bubble & 9/11 attacks](#) (2000-2002) - [charts](#)
  - 2) [SARS outbreak](#) (2002-2003) - [charts](#)
  - 3) [Global Financial Crisis](#) (2007-2009) - [charts](#)
  - 4) [Swine Flu](#) (2009-2010) - [charts](#)
  - 5) [Eurozone debt crisis](#) (2010-2012) - [charts](#)
  - 6) [Ebola](#) (2014) - [charts](#)
  - 7) [U.S – China trade war](#) (2018-2019) - [charts](#)
  
- We have first looked at how the S&P 500 reacted to these global economic disruptions and pandemics and then plotted the ASPI movements, along with the stock indices of India and Indonesia during these times.

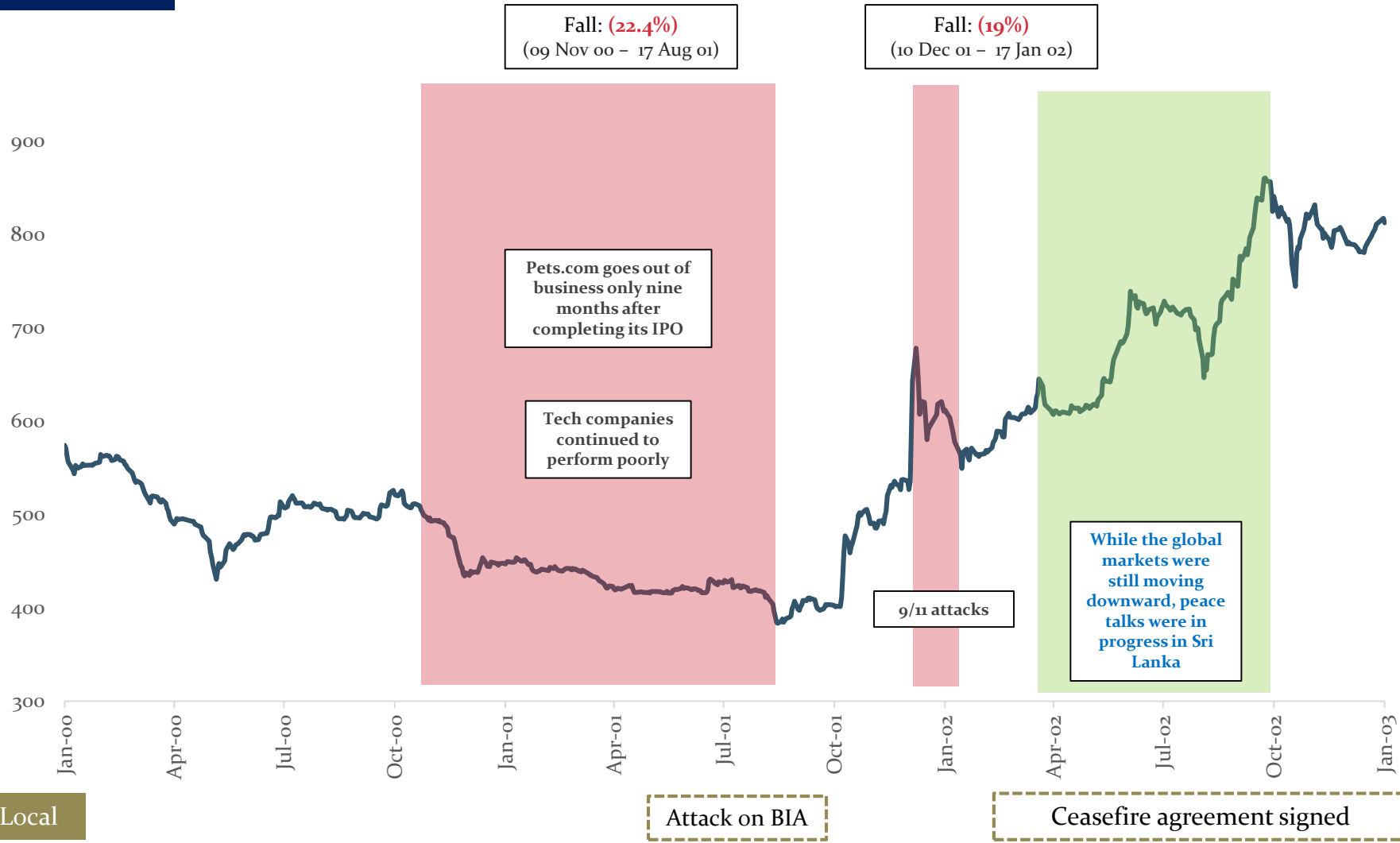
# Dot.com bubble & 9/11 attacks 2000-2002

- When Pets.com, a much-hyped company that had backing from Amazon.com, went out of business on 9<sup>th</sup> November 2000, only nine months after completing its IPO, the S&P 500 was already on a downward trend.
- During the period post the occurrence of this event, Sri Lanka too faced a declining ASPI, which fell more than the S&P 500, though local incidents such as the attack on the BIA by the LTTE in July 2001 would have had heavy bearing on market movements.
- While the S&P 500 continued to fall in 2002, the ASPI was rising. This was as a result of the peace talks progressing in Sri Lanka over the same period.



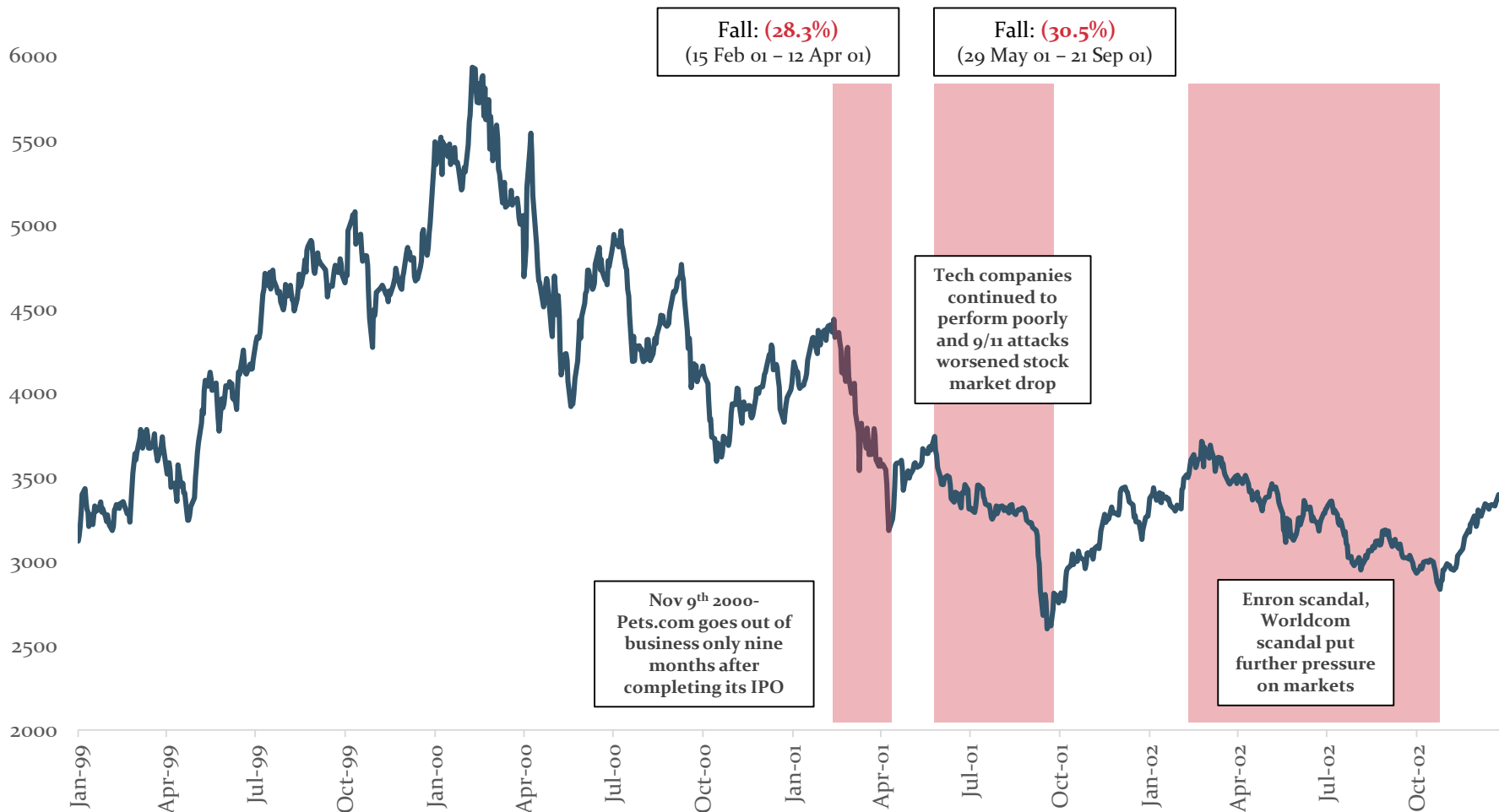
# S&P 500



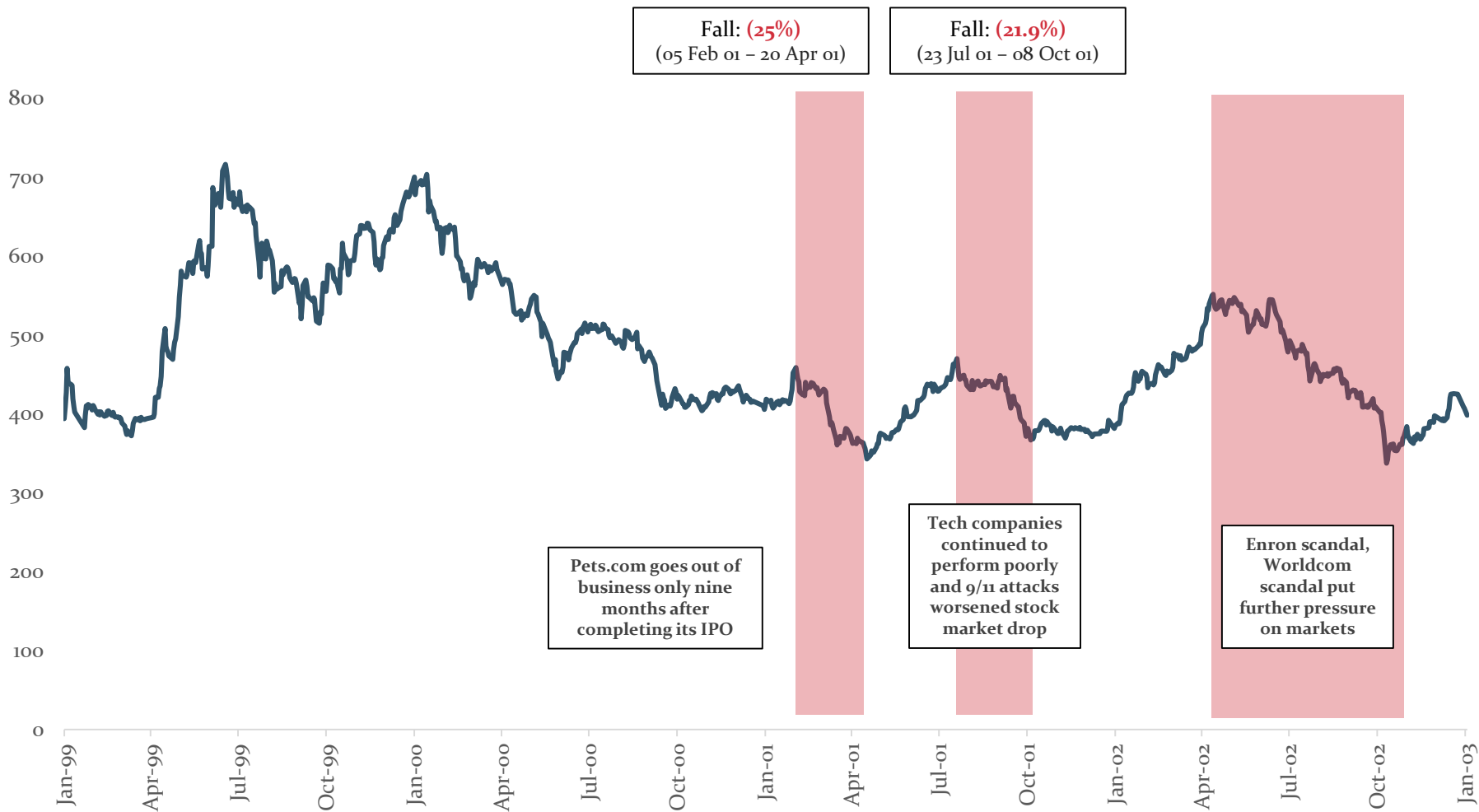


Local

# BSE Sensex - India



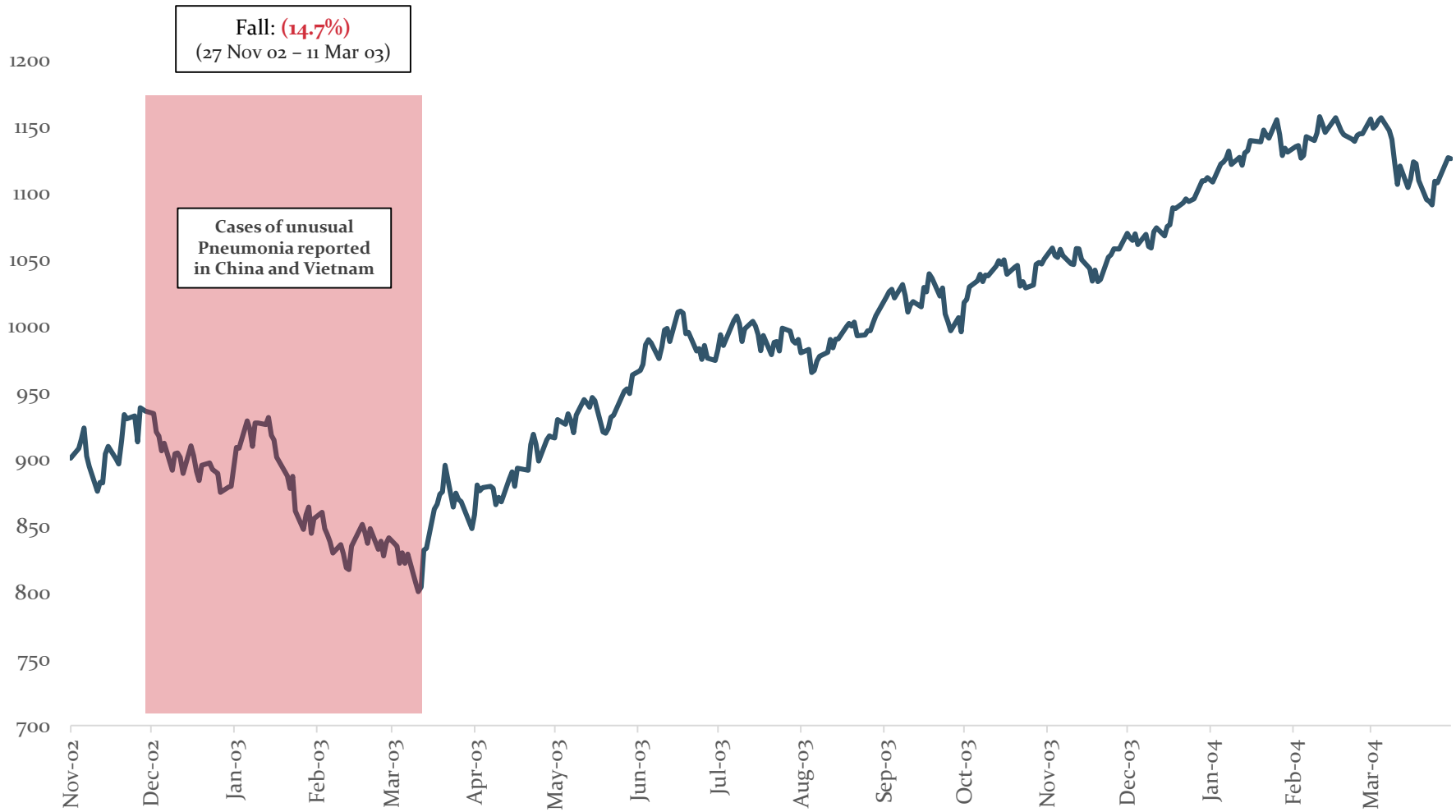
# JKSE - Indonesia

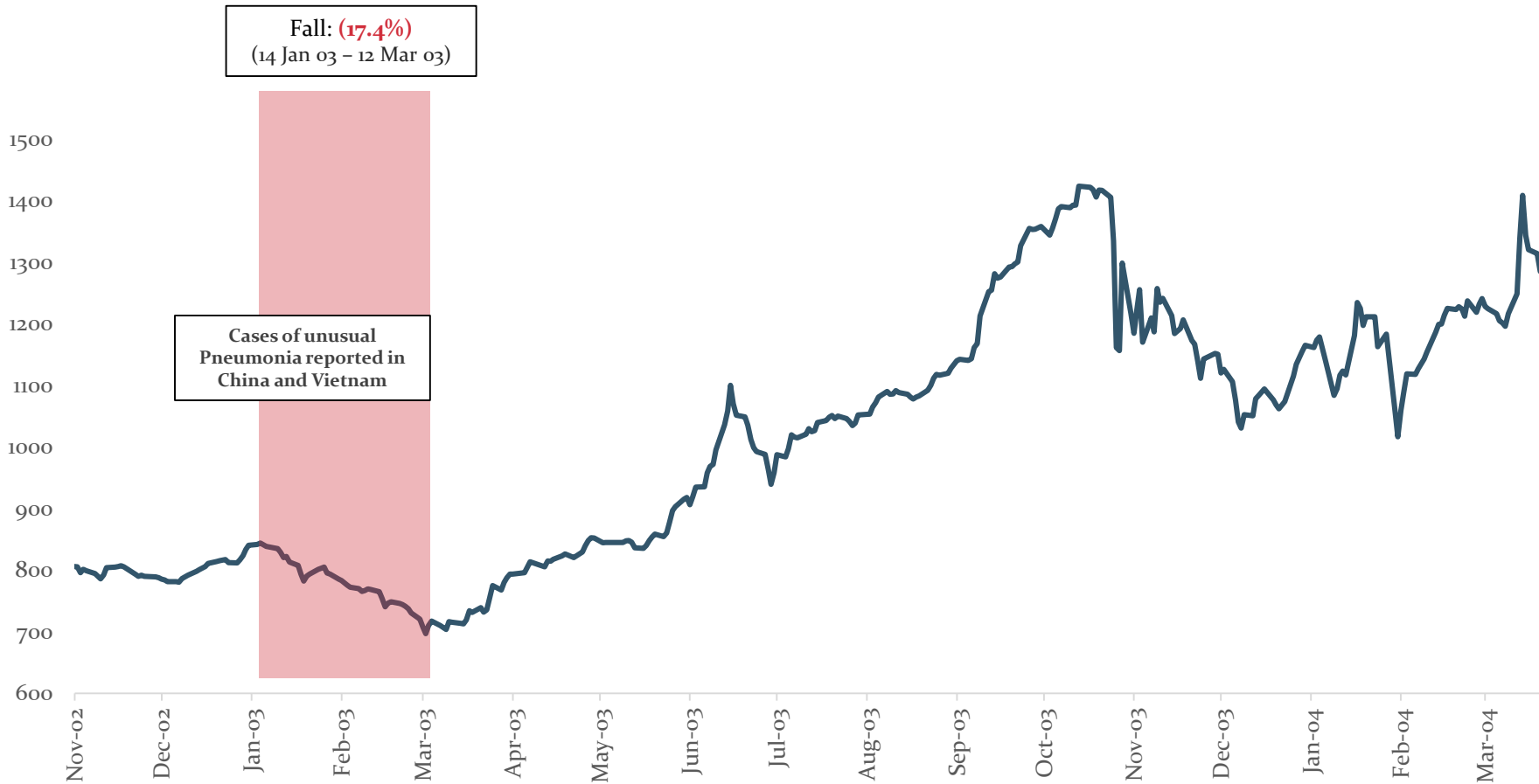


# SARS 2003

- While the first case of an [unusual case of pneumonia](#) was reported in November 2002, WHO issued a global alert on 12<sup>th</sup> March 2003.
- The S&P 500 dropped 14% from end of November 2002 to 11<sup>th</sup> March 2003, but there onward the market saw an upward trend, despite the increasing number of cases being reported. [The death toll ended up at 770](#)
- The ASPI was also on an upward trajectory from March onward for most part of 2003

# S&P 500





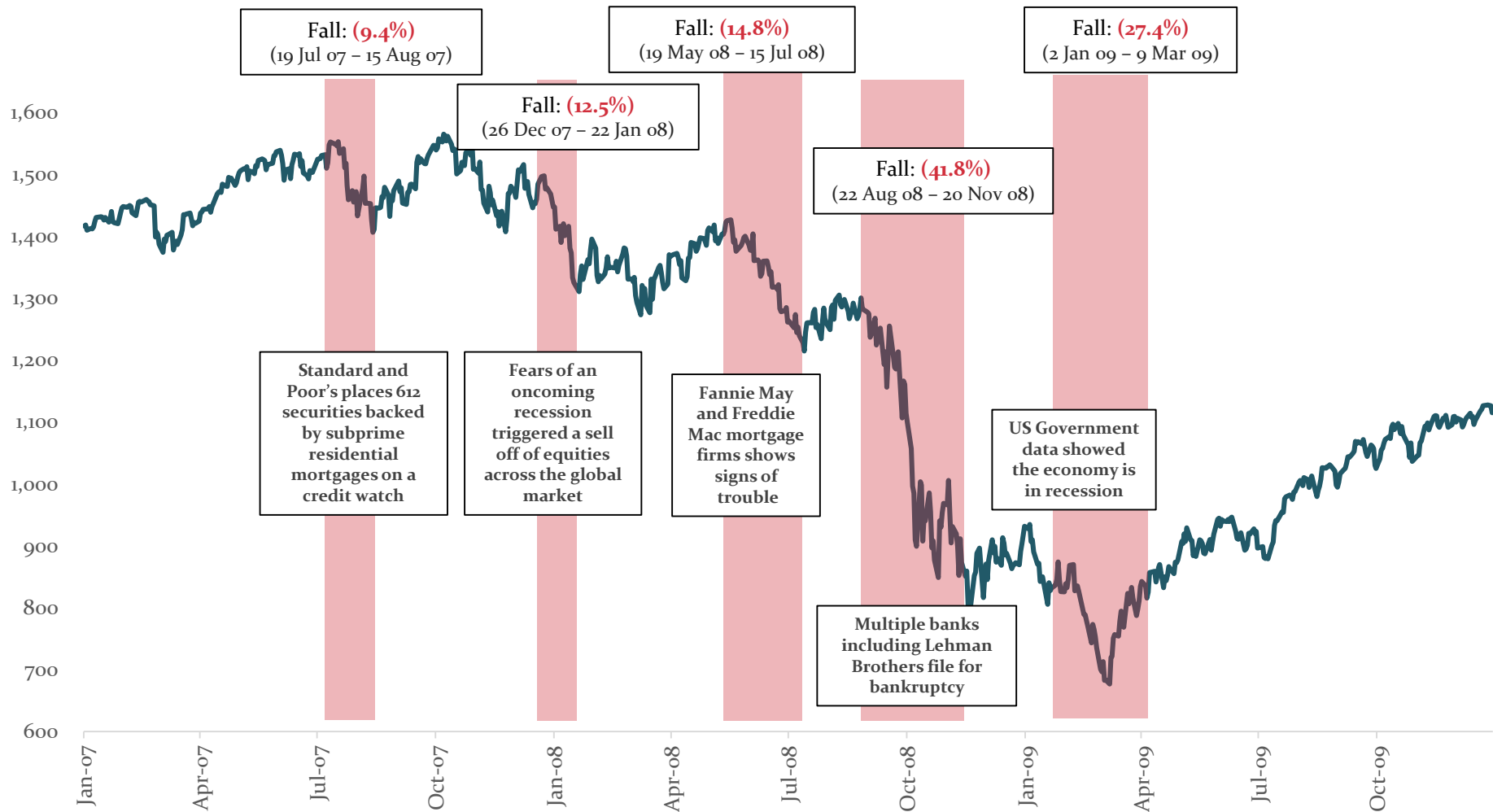
Local

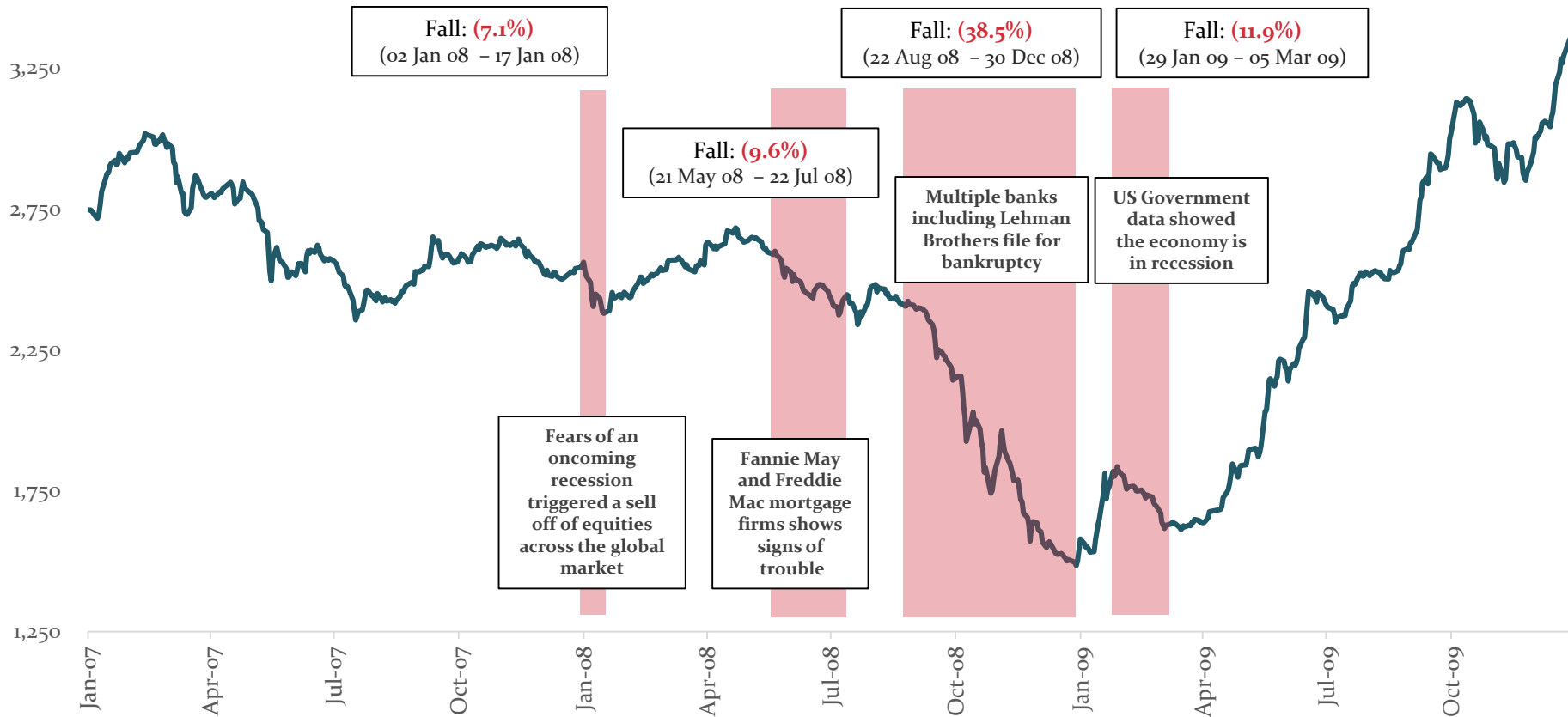


# Global Financial Crisis 2007-2009

- The magnitude of the fall in the ASPI and S&P 500 during the 2<sup>nd</sup> – 3<sup>rd</sup> quarters of 2008 when many financial institutions, including Lehman Brothers, declared bankruptcy, have been almost similar. The Indian and Indonesian stock markets too faced significant falls over the same period.
- At this point, Sri Lanka was also reaching a stage where the end of the war was in sight.

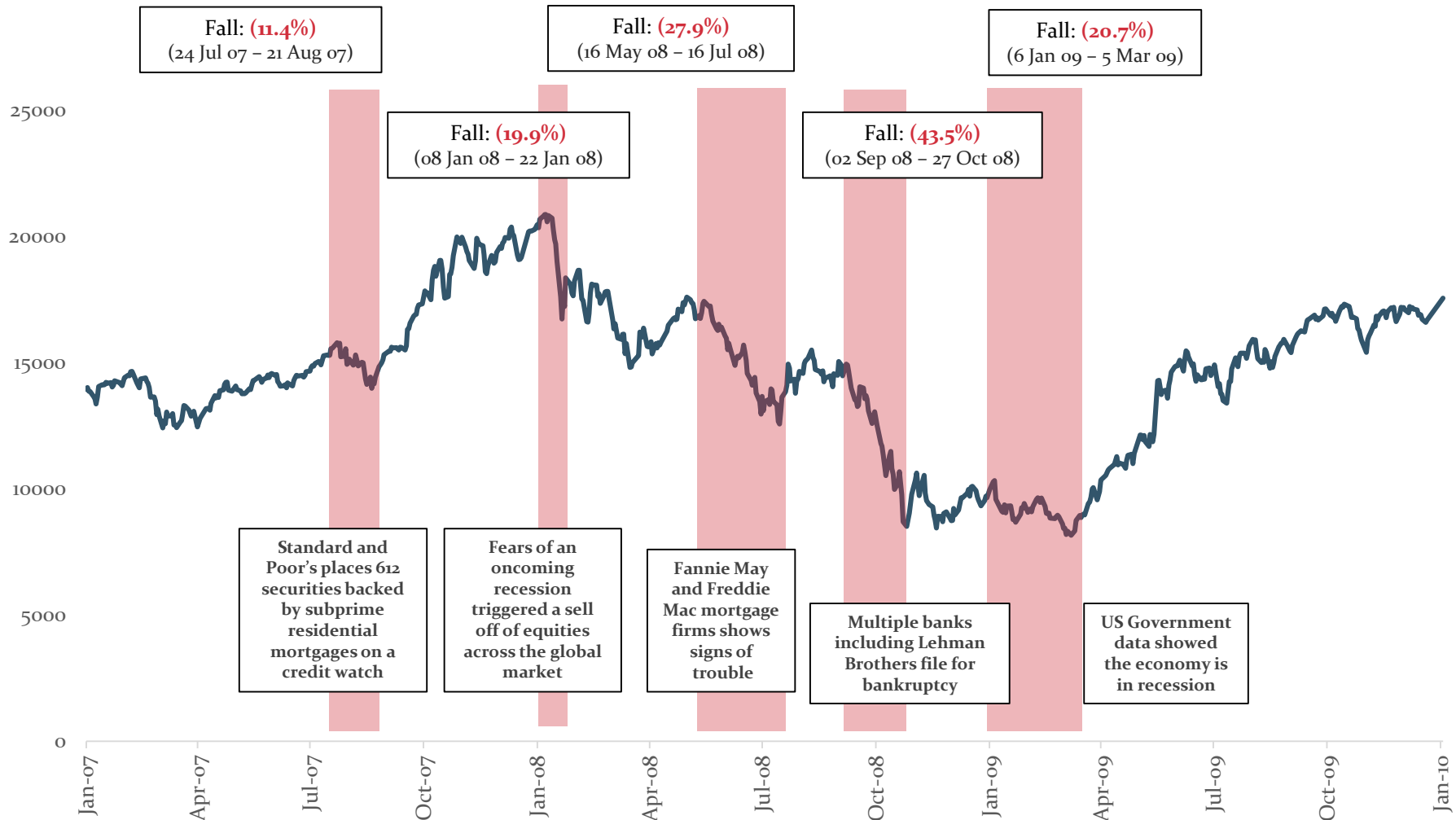
# S&P 500



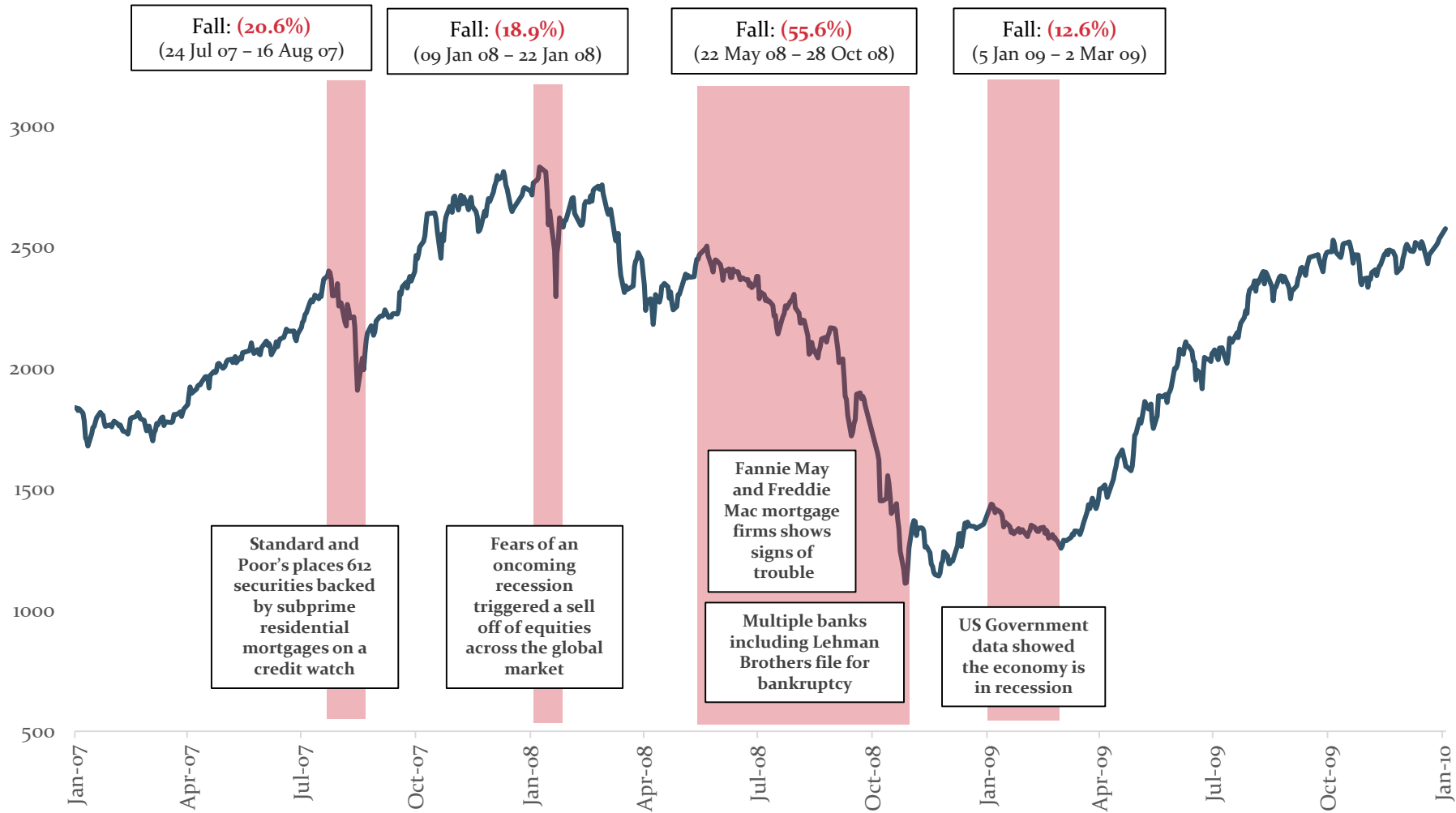


16<sup>th</sup> May 2009  
End of war declared

# SBSE Sensex - India



# JKSE - Indonesia

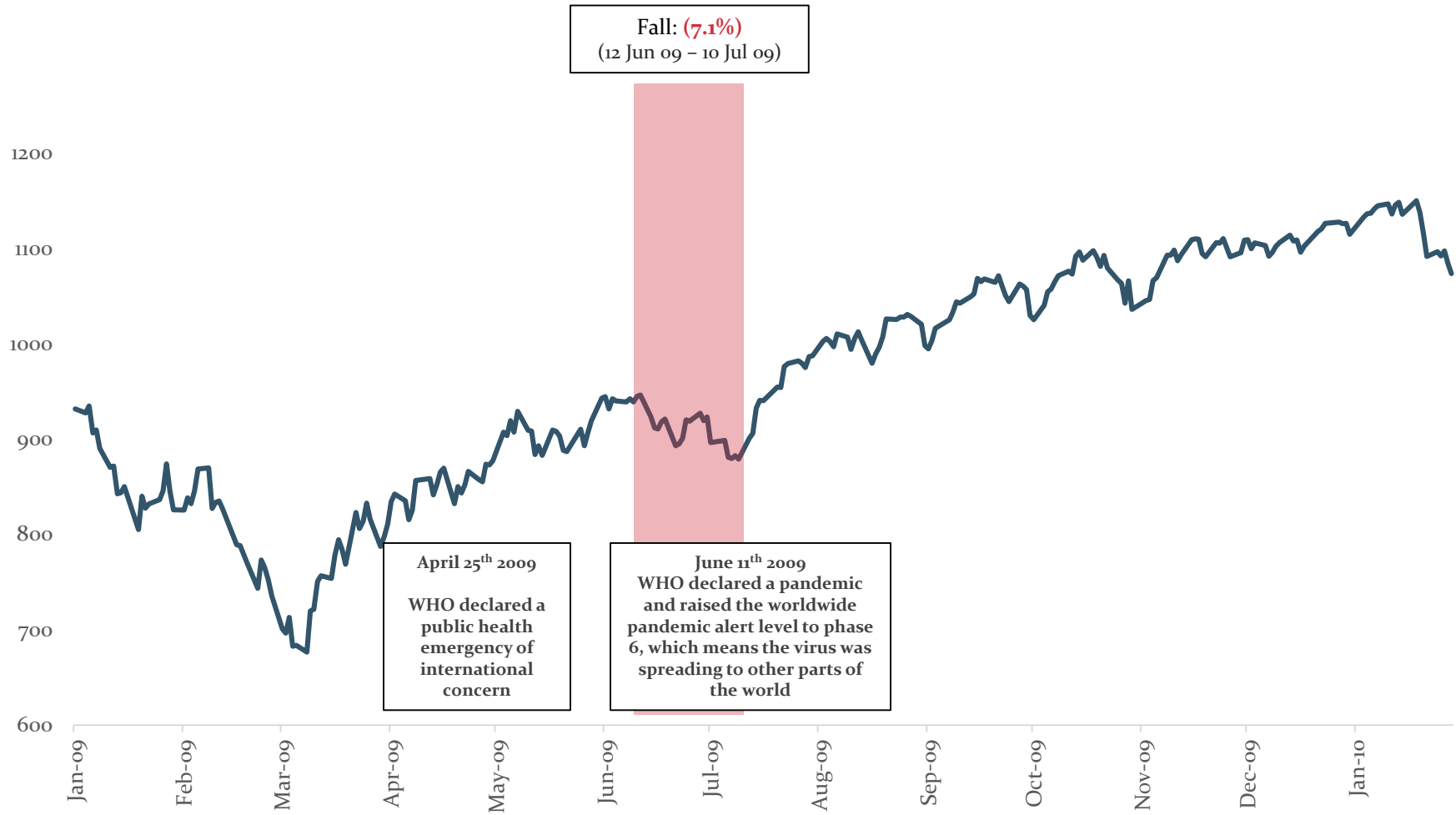


# Swine Flu 2009-2010

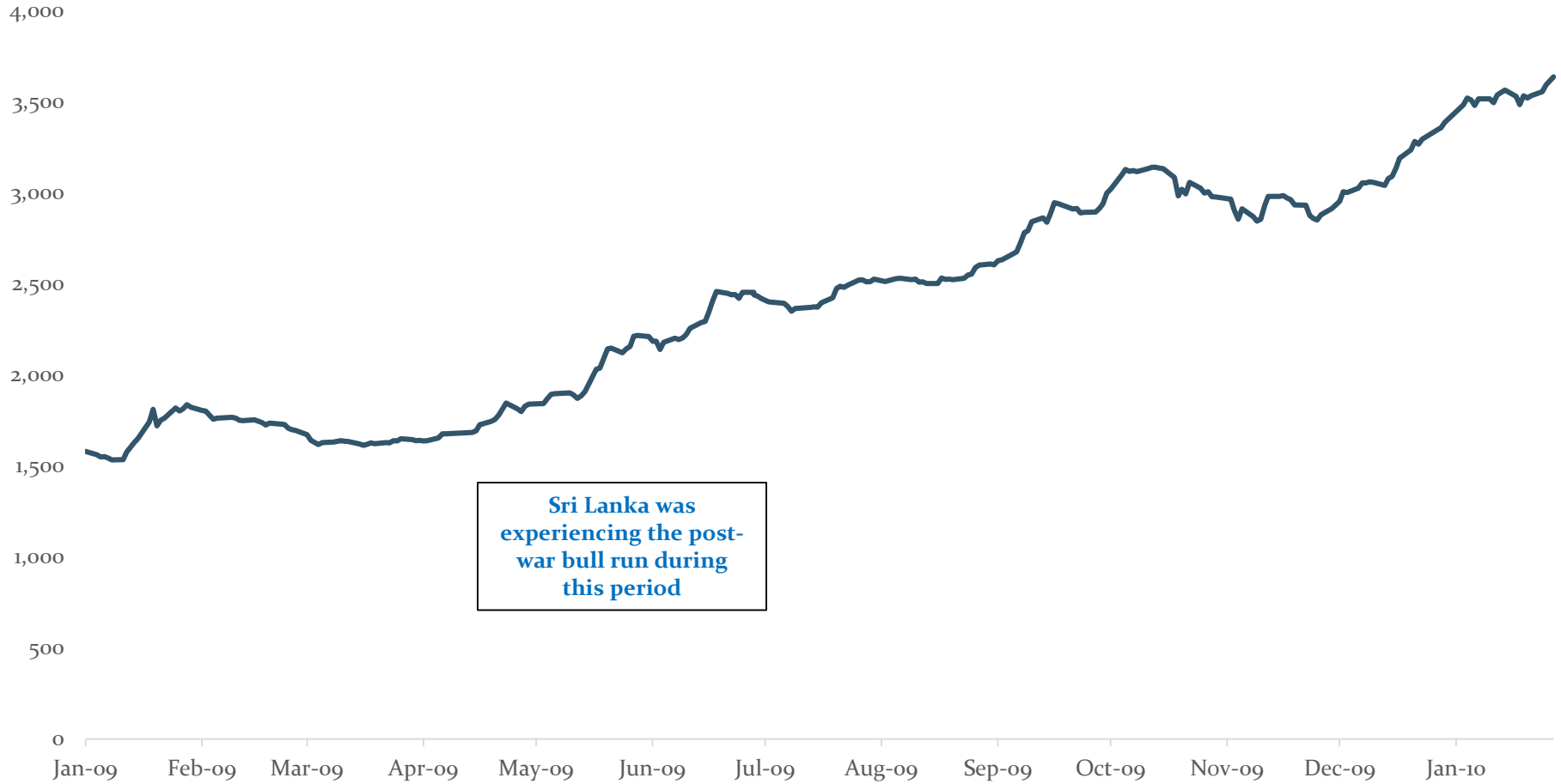
- The Swine flu, which recorded a death toll of [200,000](#) was claiming victims from April 2009.
- The notable decline in the S&P 500 came only in June 2009, when the WHO declared a pandemic and raised the worldwide pandemic alert level to phase 6, which means the virus was spreading to other parts of the world. The index recovered after 11<sup>th</sup> July and continued to see a broad upward trend despite the [flu continuing until the end of the 3<sup>rd</sup> quarter of the year.](#)
- In May 2009 Sri Lanka saw the 30-year war ending and the ASPI was also moving upward for most part of the year



# S&P 500



# ASPI

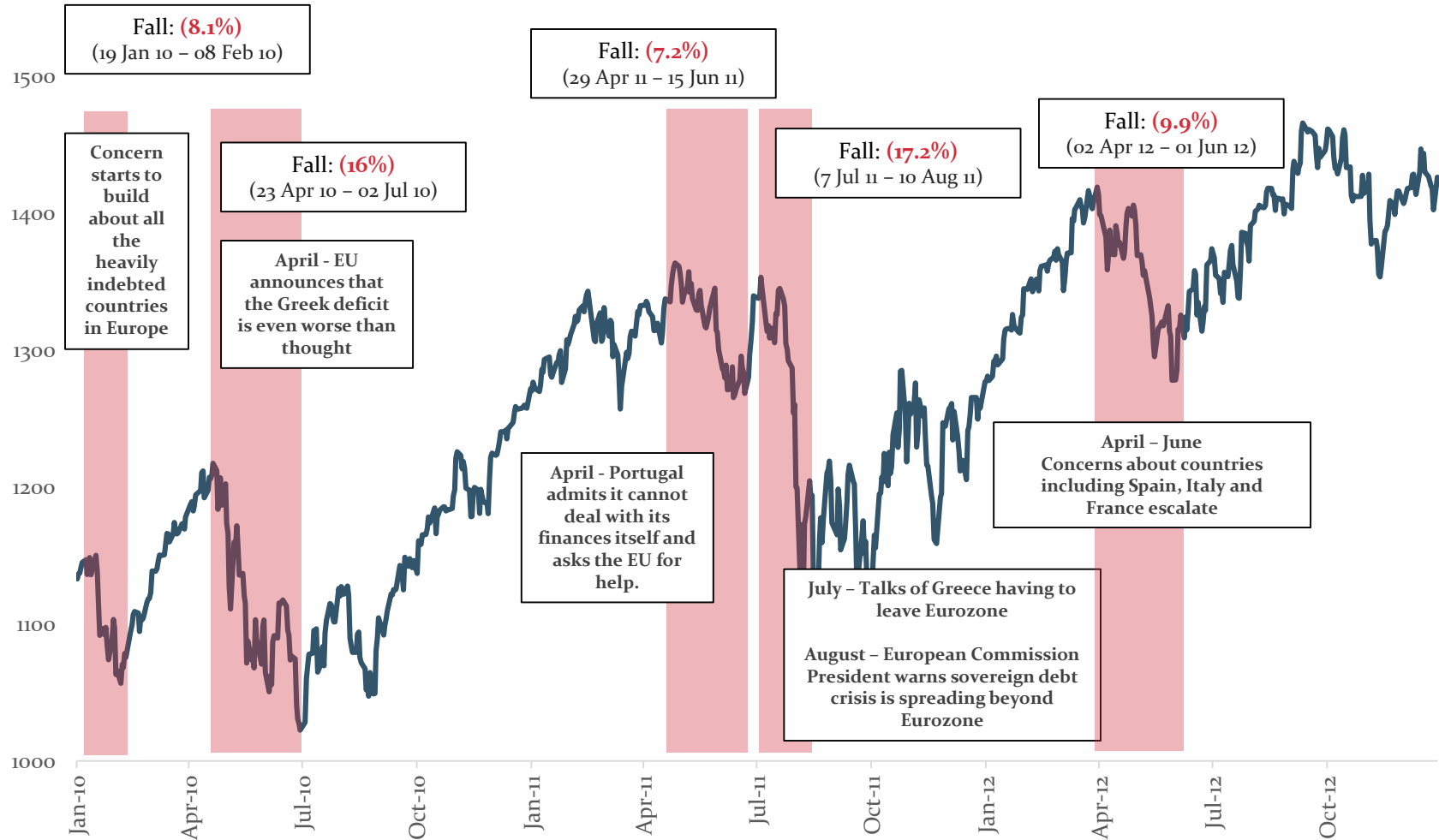


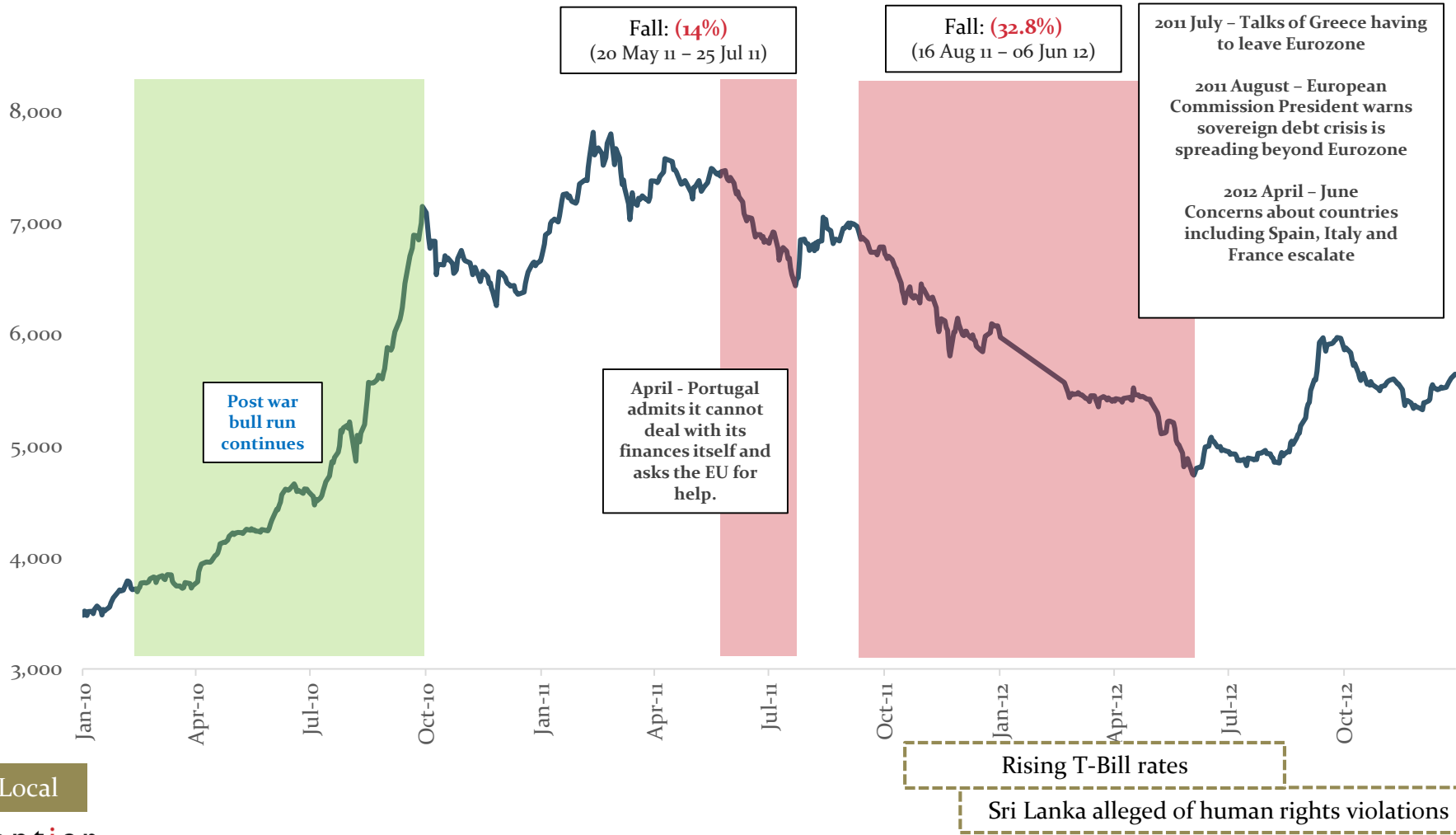
Sri Lanka was experiencing the post-war bull run during this period

# Eurozone Crisis 2010 - 2012

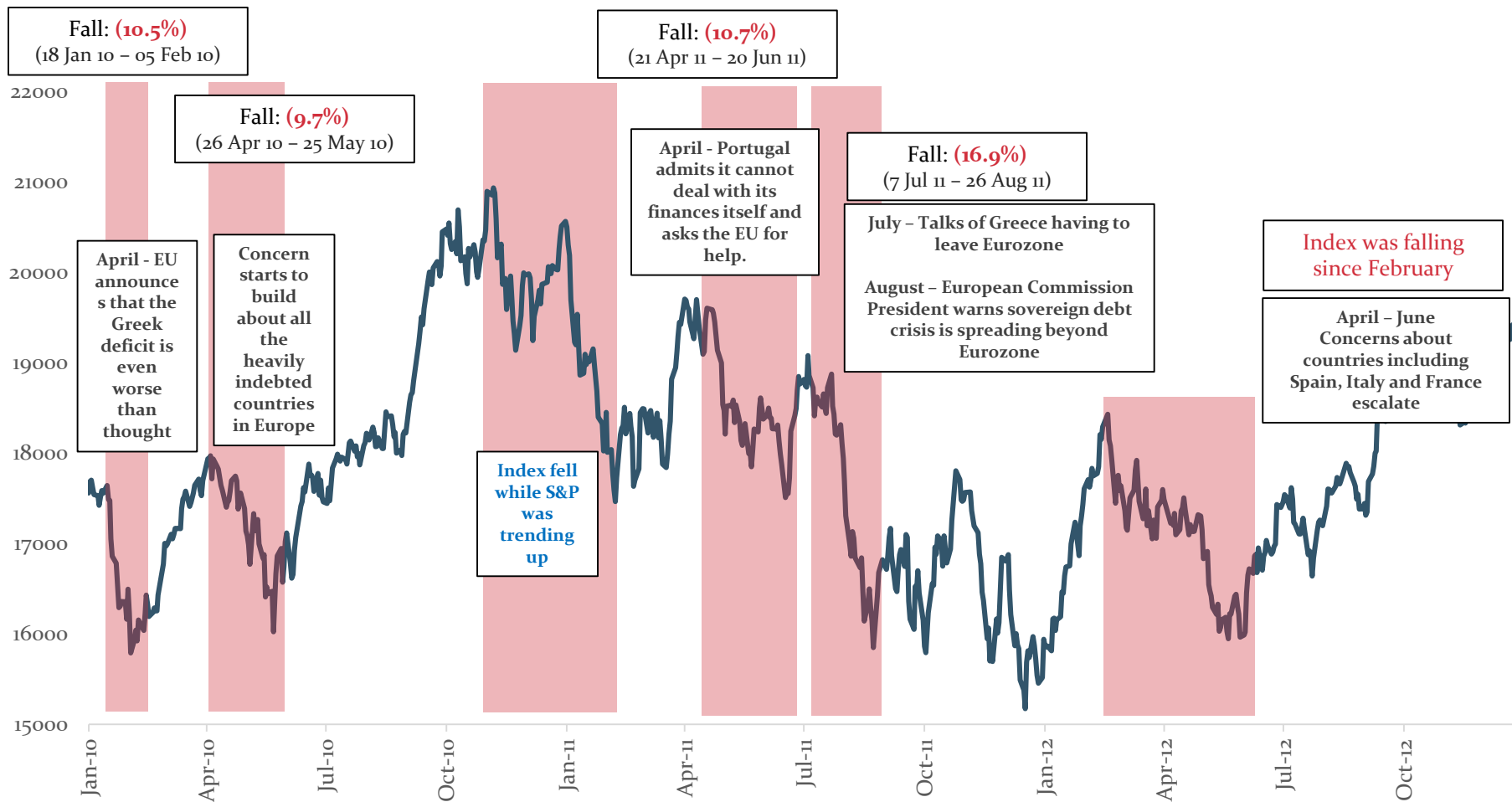
- A number of dips in the S&P 500 could be seen from 2010-2012. In 2010, the ASPI continued to drive up on its final leg of the post-war bull run. However, the murky global conditions hit it in 2011 and continued into 2012
- In fact, even when the S&P 500 saw a period of recovery in late 2011 – early 2012, the ASPI continued to fall and recorded a sharper fall overall. India faced a similar situation, though the magnitude of the fall was less

# S&P 500

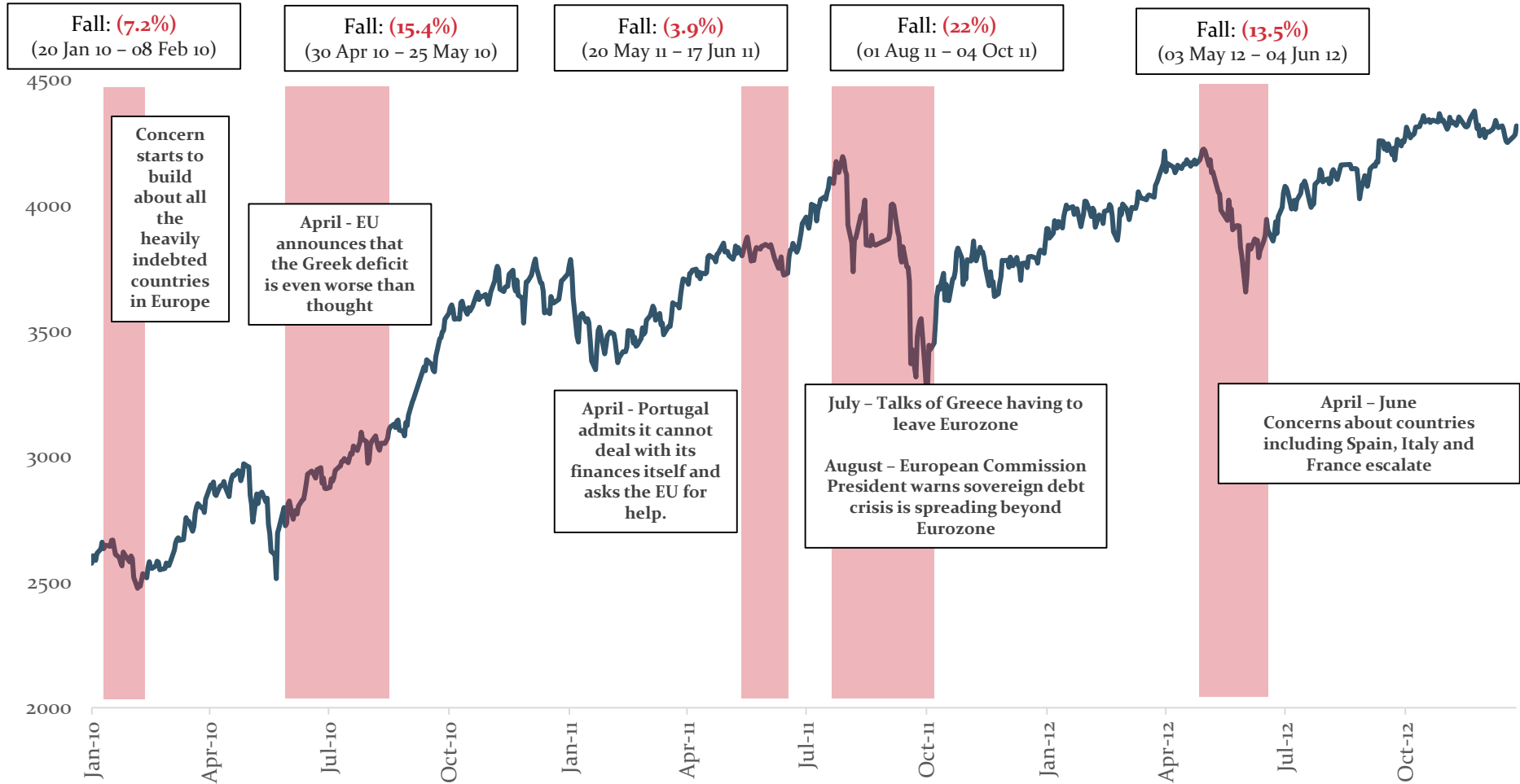




# BSE Sensex - India



# JKSE - Indonesia

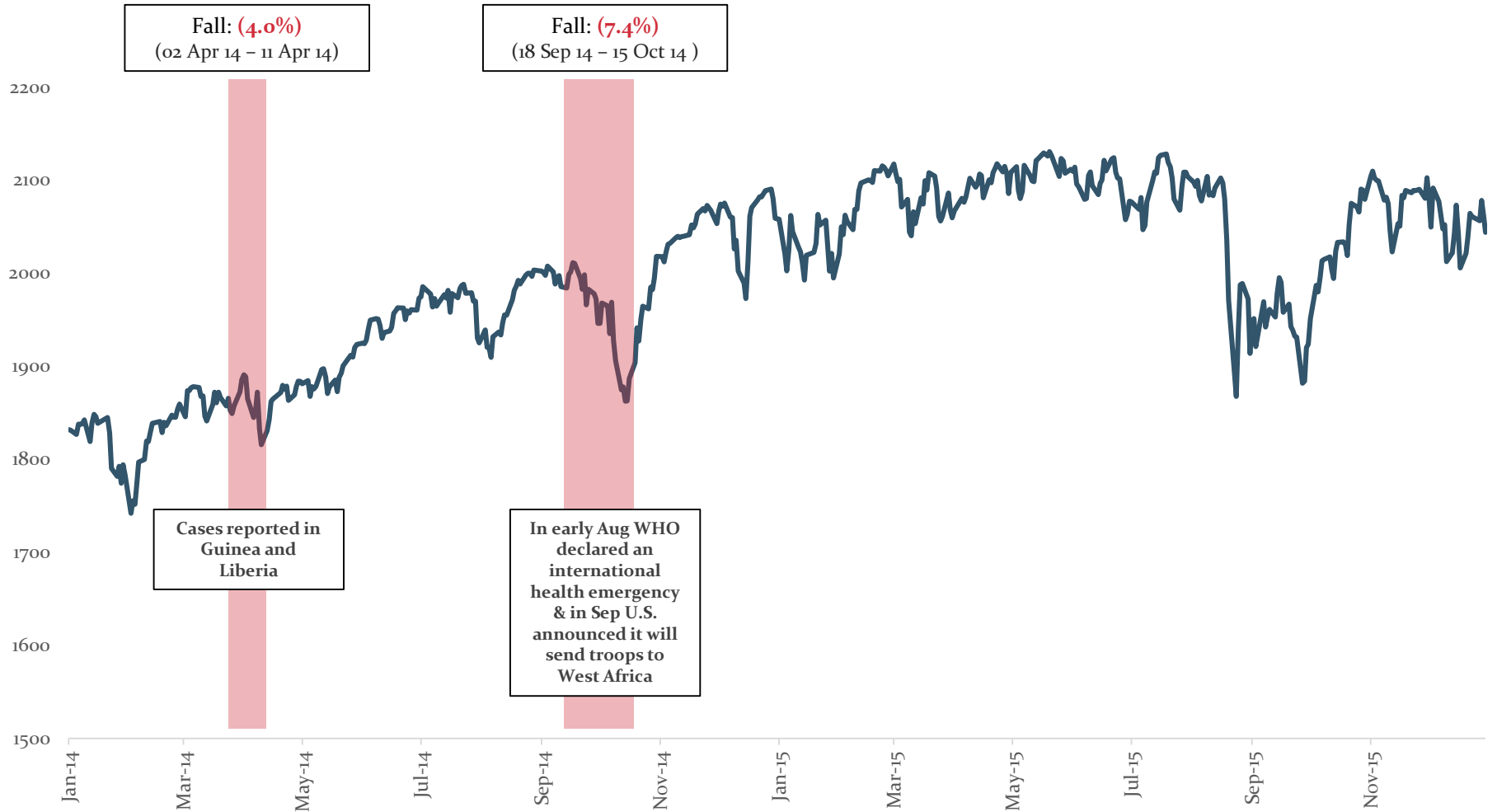




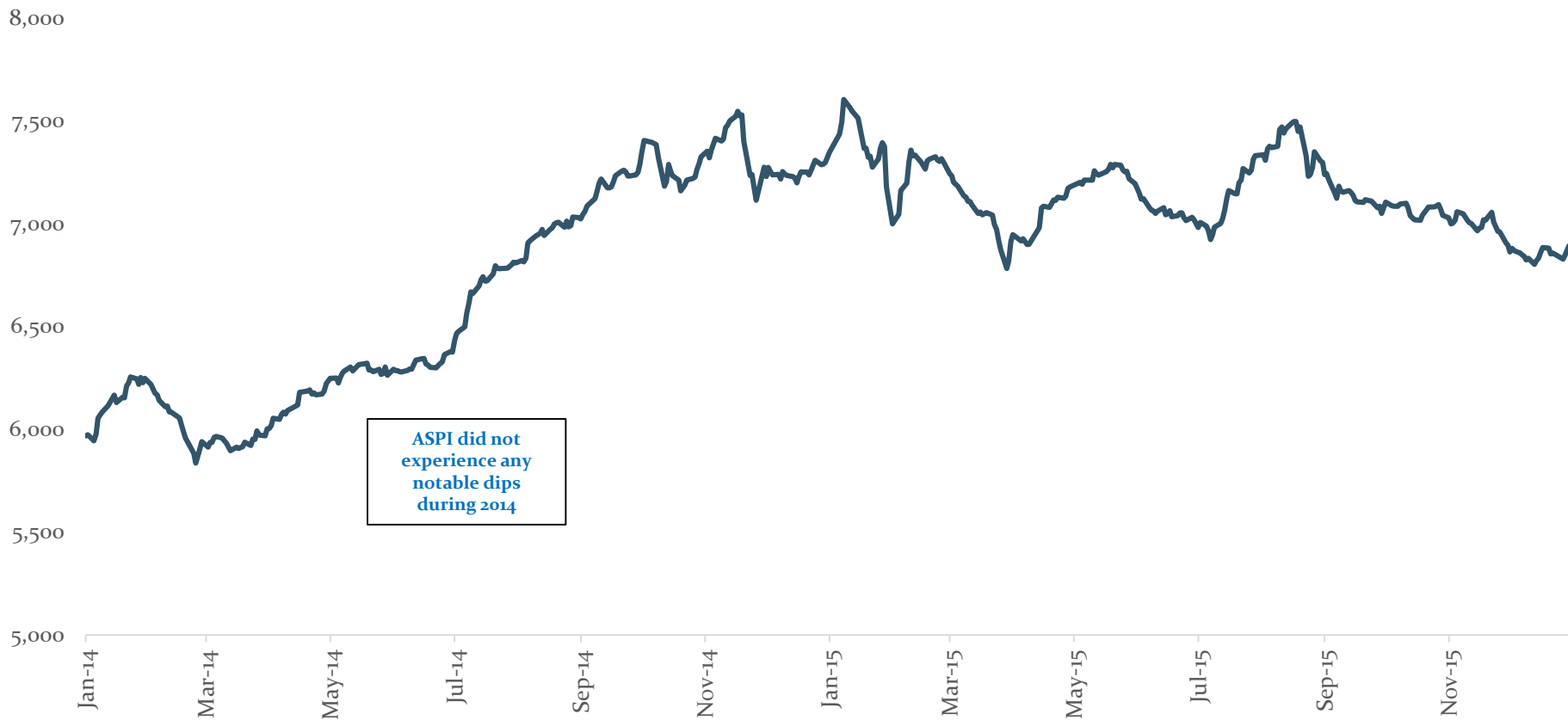
# Ebola 2014-2015

- During the Ebola outbreak in 2014 which reported [a death toll of over 11,000](#), the S&P was rather volatile, but only a few clear dips related to it could be noted
- The ASPI does not seem to have been affected during this period and continued on a bull run for the most part of 2014

# S&P 500



# ASPI

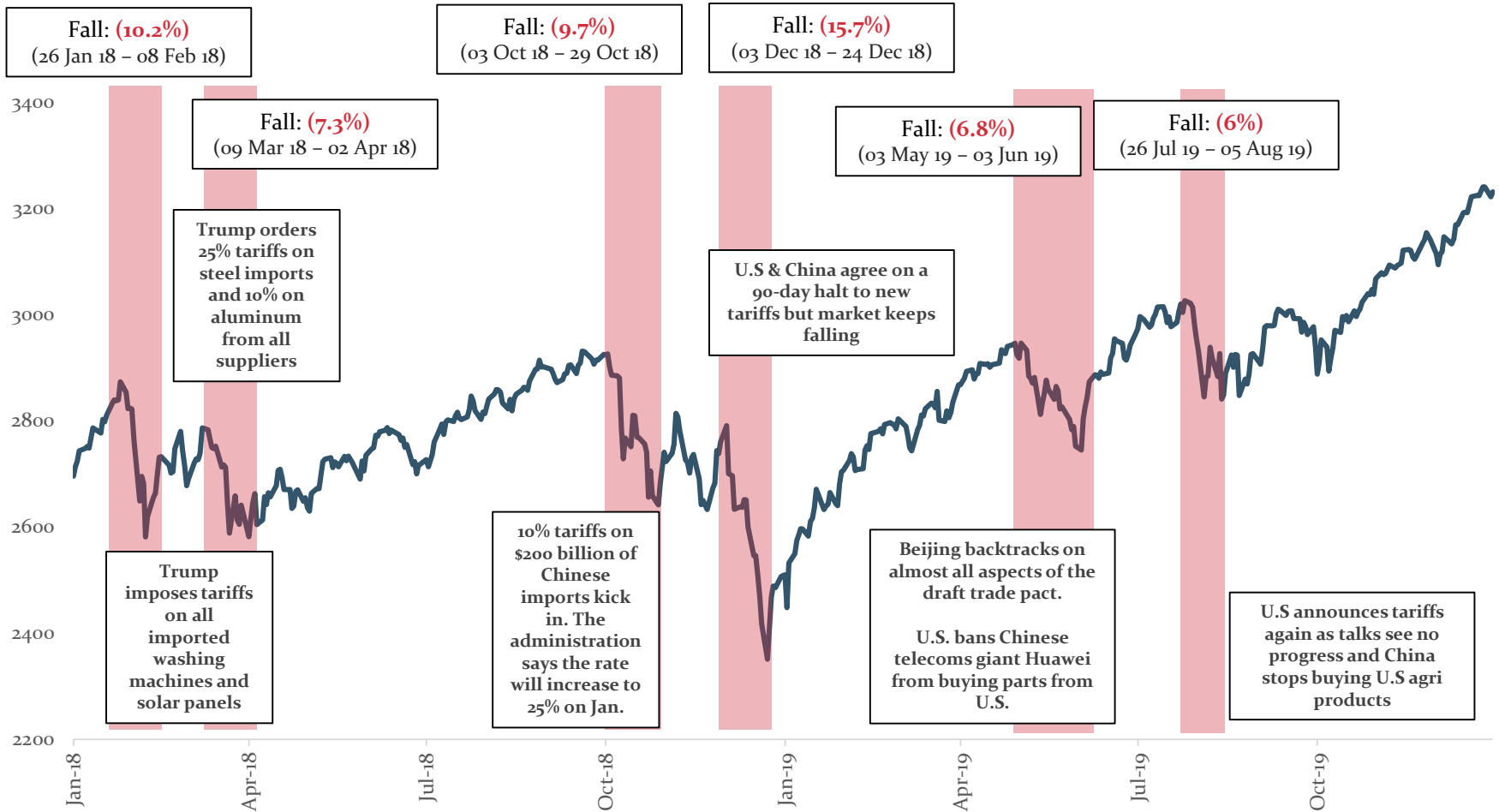


ASPI did not experience any notable dips during 2014

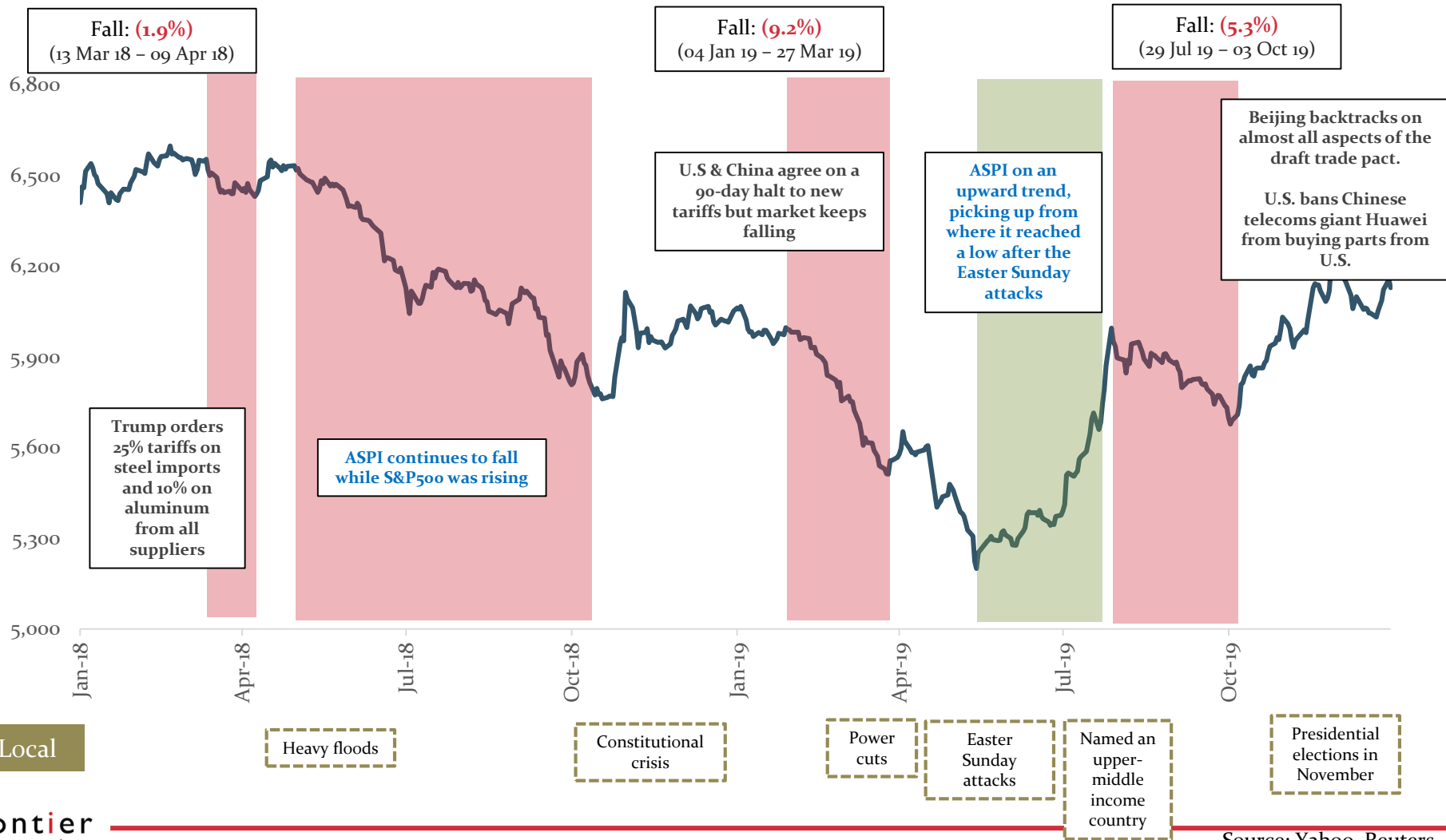
# U.S – China Trade War 2018 - 2019

- Some of the dips in the S&P 500 could also be seen in the ASPI. On the other hand, the index was very much affected by what was happening locally as well, eg: Easter Sunday attacks.

# S&P 500

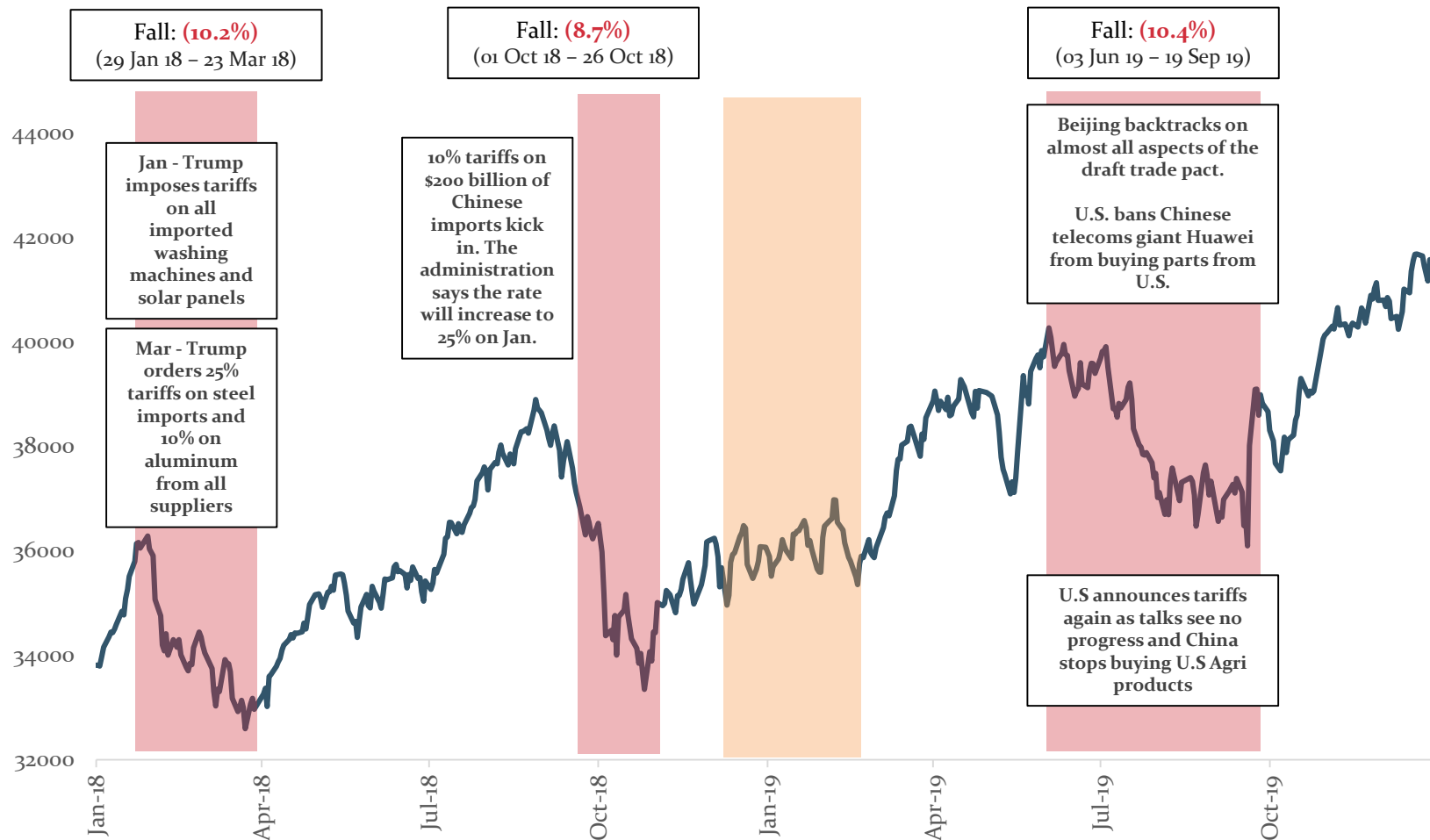


# ASPI

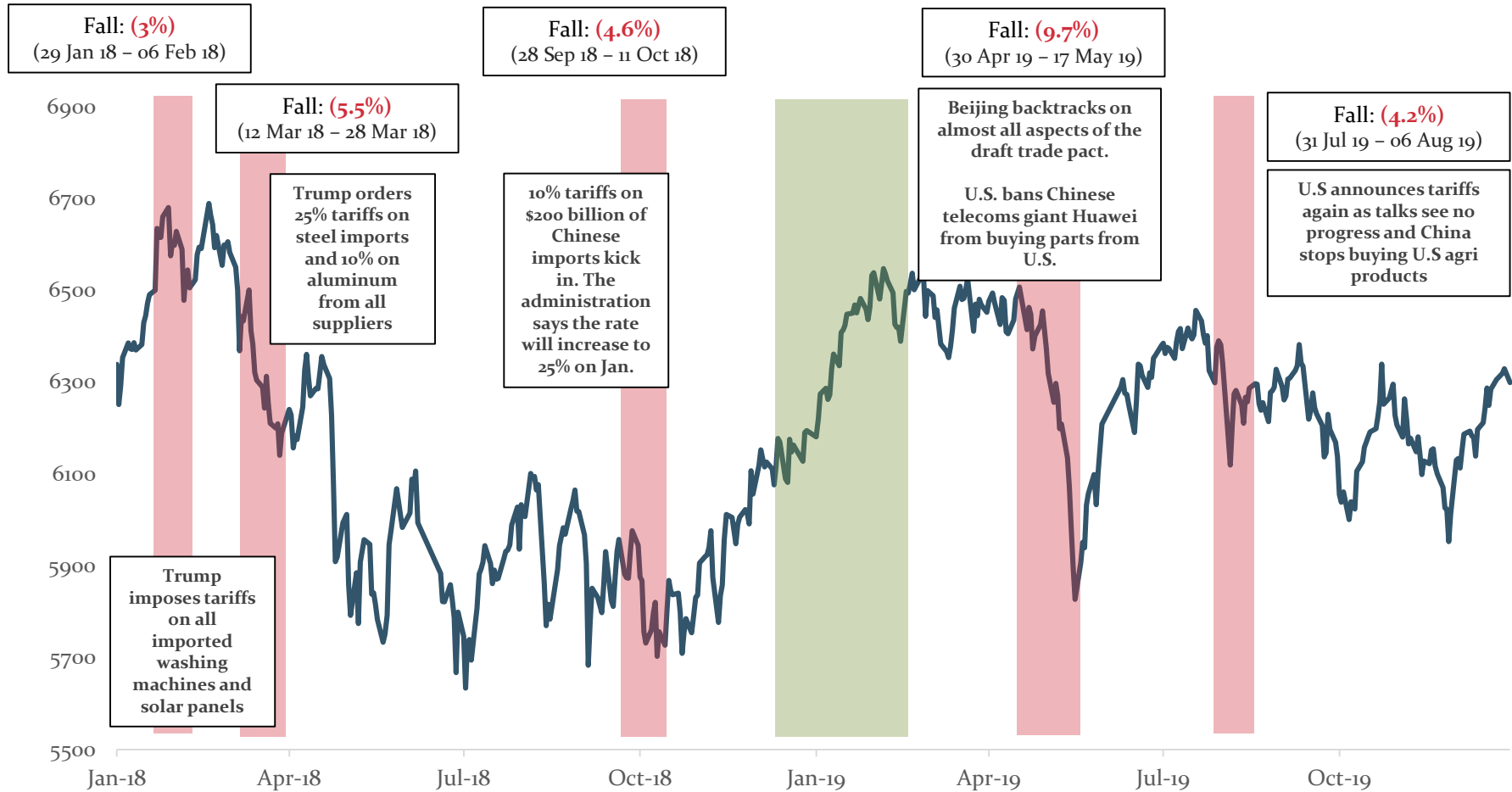




# BSE Sensex - India



# JKSE - Indonesia



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