CRAWLING FROM THE WRECKAGE: US STOCKS

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"Crawlin' from the wreckage, Crawlin' from the wreckage
You'd think by now at least that half my brain would get the message…
Nothin' ever happened ain't happened before
I see it all through flashes of depression". "Crawling from the Wreckage", a Dave Edmunds song

"We've not seen anything of the sort before, that's all. Personally, I find it interesting, yes, definitely interesting." A character in Albert Camus' novel "The Plague" (Part I)

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CONCLUSION

Everyone knows that the coronavirus pandemic and political (medical) responses to it have wreaked widespread and deep economic carnage around the globe. The coronavirus of course was not the only bearish phenomenon preceding and influencing the disastrous economic situation. The ultimate extent of the damage and the timing and extent of the recovery remain conjectural.

Given the importance of the United States to the international economy, both Wall Street and Main Street spend much attention and energy focusing on America. Widely-watched American stock indices such as the S+P 500 and Dow Jones Industrial Average are benchmarks which to some extent probably reflect the overall health of and potential for the American economy. Thus in the current situation, levels and trends for these American equity marketplaces attract and sustain international fascination.

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To many, the biological (medical) problem of the coronavirus makes it a poster child for the viewpoint that "this time is different" in its consequences for economic (financial, commercial) trends and outcomes. Obviously, disease playing a critical role in a terrible downturn is very rare. Yet economic history (including recessions and bear and bull trends in stock marketplaces) involves all sorts of "causes" with supply and demand consequences, so observers should not neglect or dismiss past periods as being unimportant to an analysis of the current economic situation. So arguably there are parallels between prior marketplace history and that of nowadays, even if "the past" did not involve a deadly virus.

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Wall Street, politicians, and Main Street pray that the monumental monetary interventions by central banks such as the Federal Reserve and its partners (money printing and so forth) and dramatic fiscal actions not only will rescue the international economy from its current dire troubles (reduce the magnitude of a recession), but also will restore acceptable economic growth relatively quickly. The prior success in dealing with the appalling worldwide economic disaster of 2007-09 encourages widespread faith that these (and perhaps further) efforts and a "whatever it takes" policy attitude ultimately will succeed.

Recall the glorious bull move in the S+P 500, sparked by sustained monetary easing (money printing; yield repression) and deficit spending, which ran for over ten years since 3/6/09's major bottom at 667. Perhaps US stocks over some long run horizon (or even sooner) even will achieve new record highs!

But maybe this time will be different for the global economy and stocks in comparison with the years following from the 2007-09 bloodbath. A satisfactory recovery (including moderate unemployment levels) may be very difficult to achieve anytime soon, even if more easing and deficit spending occur.

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The S+P 500's fearful collapse from 3394 on 2/19/20 to 3/23/20's 2192 was 35.4 percent and lasted just over a month. Following its March low, the S+P 500 ferociously rallied 28.6 percent in two weeks to 2819 (4/9/20). A review of previous major bear trends for the US stock marketplace going back in time about 125 years does not show a single trend which ended in one month. Will this time be different?

Will the extraordinarily accommodative policies of the Federal Reserve and its central banking comrades (assisted by gargantuan global deficit spending) make this time different, so that the bear trend for American stocks which commenced in mid-February 2020 endures only one month? Or, will instead the 3/23/20 S+P 500 low eventually be broken?

PRELUDE

Marketplace history of course is not marketplace destiny. Cultural history, which includes "economic" (financial, commercial, business) history, need not repeat itself, either entirely or even partly. Perceptions of and arguments and conclusions regarding "history itself" (whether "the past", a so-called current situation, or various potential futures) and its variables are subjective. For historical phenomena, apparent similarities and differences likewise are matters of opinion, not objective. The identification and selection of relevant variables for economic, political, social, and other cultural fields, as well as assessments of their importance and interrelations, likewise reflect personal outlooks. Economics is not (and never will be) even partly scientific (objective); compare Natural (real; genuine) sciences such as biology, chemistry, physics, mechanical engineering, and mathematics.

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A widely-employed subjective general definition for a bear stock market trend is a retreat of at least twenty percent from a noteworthy high. Views as to the meaning of a bull stock market pattern likewise reflect opinion.

BEAR MARKET HISTORY OVER THE LONG RUN: AMERICAN STOCKS

The Germs, a punk rock band, shout in "Going Down":
"Sifting through apocalypse
All I want's to catch a glimpse
Just another broken day
My whole world's gone away"

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United States stock marketplace trends intertwine with other global stock marketplaces, US government and other interest rates, the dollar and other currencies, commodities, real estate, and assorted other economic, political, and social variables in a variety of fashions. These relationships and phenomena encouraging them can and do change, sometimes slowly, sometimes rapidly. Convergence and divergence (lead/lag) patterns between marketplaces likewise can shift or transform.

Views as to whether stock prices are high (very high or too high; overvalued), low (very low or too low; undervalued), reasonable (fairly valued; normal, average, at an equilibrium) and so forth are matters of opinion (reflect subjective perspectives); they are not scientifically (objectively) grounded.

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The following summary for US stock marketplace bear trends over the past 125 years concentrates only on the price (and time and distance) moves themselves, not on other marketplaces. Such a long run equity history thus implicitly includes all sorts of reasons, conditions, and circumstances for bear trends. Again, the coronavirus was not the only bearish factor involved in the recent global stock marketplace shipwreck.

For related marketplace analysis, see “Critical Conditions and Economic Turning Points” (2/5/20), “Global Economic Troubles and Marketplace Turns: Being There” (3/2/20), “Ringing in the New Year: US and Other Government Note Trends” (1/6/20), and other essays.

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From the 1890s through the 1970s, the investigation enlists the Dow Jones Industrial Average. For much of that time span, there was no S+P 500. The S+P 500 stock index had a predecessor with fewer members, but the S+P 500 stock index began trading in 1957. And for a couple of decades after 1957, the Dow Jones Industrial Average remained the leading US stock benchmark. Since around the early 1980s, although the DJIA remains popular, the S+P 500 gradually has become more influential, especially in Wall Street circles.

The following table consequently focuses on the major bear moves in the Dow Jones Industrial Average until the mid-1970s, and thereafter on the S+P 500’s bear adventures. A “major” bear move in this discussion generally is one of roughly 35 percent or more. Thus the discussion does not capture every bear move satisfying the conventional definition of twenty percent. In this regard, however, and as the fourth quarter 2018 price slump is an example, there can be a twenty percent retreat within the context of an even longer run bull move.

The 1956-57 down trend, though only 20.6 percent, is suitably long in its duration and sufficiently distant in time from the surrounding major bear moves (which began in 1937 and 1973) to qualify as a major bear move. The 1980-82 bear move decline also should be labeled a major bear trend. Its 28.2 percent slump is not substantially less than the 35 percent guideline, and its 21.5 month length rivaled or exceeded many other major bear journeys.

Marketplace history shows that the DJIA and S+P 500 generally trade together (in the same overall direction), though the timing of their turns and the percentage distance they voyage from a similar starting point are not always the same.

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A Dow Jones average of 10 railroads and two industrials preceded the May 26, 1896 introduction of and its replacement by the new Dow Jones Industrial Average (price 40.94). Although the two averages are not interchangeable, the newer average probably moved to some extent like its predecessor. Thus the prior average likely provides guidance on a long run bear marketplace trend that began on June 5, 1890 and finished with the DJIA’s major bottom on August 8, 1896 at 28.48. That over six year slump probably travelled roughly 52.7 percent. Arguably this long move had two bear sections (some would say the time span included two bear trends). The second stage (trend) commenced around 9/4/1895, with the decline to the 8/8/1896 trough about 39.3 percent. The table below presents both alternatives for 1890-1896, though it includes prices only for the new DJIA.

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High (date)	**Bottom (date)**	**Percentage Decline**	**Duration**
	Dow Jones Industrial Average:		
A. 6/5/1890 (or 9/4/1895)	28.48 (8/8/1896)	52.7 (39.3)	Over six years (11 months)
B. 103.00 (1/19/1906)	53.00 (11/15/1907)	48.5	22 months

[The World War One era low was 53.17 on 12/24/1914. WWI began 7/28/1914 and ended 11/11/1918. The Spanish influenza pandemic ran from around spring 1918 through first half 1919.]

C. 119.62 (11/3/1919)	63.90 (8/24/1921)	46.6	21.75 months
D. 386.10 (9/3/1929)	40.56 (7/8/1932)	89.5	34.25 months
E. 195.59 (3/10/1937)	92.69 (4/28/1942)	52.6	About five years
F. 524.37 (4/9/1956) (523.11 on 7/16/1957)	416.15 (10/22/1957)	20.6	18.5 months
G. 1067.20 (1/11/73)	570.01 (12/9/74)	46.6	23 months

[The S+P 500's peak was 1/11/73 at 120.24. It plummeted 48.2 percent to its 10/3/74 bottom.]

	S+P 500:		
H. 142 (11/26/80)	102 (8/9/82)	28.2	21.5 months
I. 338 (8/25/87)	216 (10/20/87)	36.1	Almost two months
[370 (7/16/90)	295 (10/11/90)	20.3	2.75 months
1191 (7/20/98)	923 (10/8/98)	22.5	2.50 months

The 1990 and 1998 bear moves were significant and exciting. However, they only slightly exceeded twenty percent. They appear to be only interruptions of an ongoing major bull trend running from October 1987 until March 2000.

The "Asian Financial Crisis" began around early July 1997. To some extent it linked with problems emerging elsewhere in 1998. In any case, the Asian Financial Crisis prompted the S+P 500 to slide only 13.0pc lower. From 10/7/97's 983, it tumbled to a low on 10/28/97 at 855. Though the three week span was fairly brief, the price decline failed to reach close to the bear marketplace definition.]

High (date)	Bottom (date)	Percentage Decline	Duration
J. 1553 (3/24/00)	769 (10/10/02); 788 (3/12/03)	50.5	30.5 months
K. 1576 (10/11/07)	667 (3/6/09)	57.7	17 months
[1371 (5/2/11)	1075 (10/4/11)	21.9	Five months
2941 (9/21/18)/ 2940 (10/3/18)	2347 (12/26/18)	20.2	Three months

History indicates that a bear trend of slightly more than 20 percent can be a stage within a broader (longer-running) major bull trend. Note the examples of 2011 and 2018 within the S+P 500's 2009-2020 bull era, not just the 1990 and 1998 price retreats during the S+P 500's 1987-2000 bull ascent. The 2011 and 2018 declines, though slightly exceeding the conventional twenty percent signpost for a bear market, probably represent sections within the long run bull marketplace trend which began in March 2009.

Does a brand new bull trend necessarily start after a twenty percent price decline? In other words, does a fall of slightly more than 20 percent end the prior bull charge? Not if one perceives the decline as belonging to a longer run ongoing bull pattern.

"Shocking" (noteworthy) US stock price falls can be significantly less than twenty percent. The Asian Financial Crisis is not the only example. The S+P 500's percentage slump from 5/20/15 at 2135 to the critical low on 2/11/16 at 1810 (1812 on 1/20/16) was 15.2 percent and lasted eight months and three weeks.]

High (date)	Bottom (date)	Percentage Decline	Duration
L. 3394 (2/19/20)	2192 (3/23/20)	35.4	About one month through 3/23/20

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This investigation of the eleven major bear market trends (A.-K.) and the four interim bear moves (1990, 1998, 2011, and 2018) reveals that the duration of the S+P 500's decline since 2/19/20 is briefer than every single one of them. Among the major bear moves, only the 1986-87 crash is comparable in brevity. Phenomena inducing a major bear trend typically do not disappear (get counteracted and overcome by bullish considerations) in a short time span.

In any case, this timing consideration reflected by the long run historical record is especially important. All else equal, this warns that the S+P 500 bear trend which began in February 2020 probably has more time to run before it ends, and that the March 2020 low eventually will be challenged and probably broken.

For the eleven major bear market declines (A.-K.), the average percentage decline from the peak is about 46.9 percent (for move A. in the 1890s, use 39.3pc). Thus the 2020 drop of 35.4 percent in the S+P 500 has been less than average, and 2020's percentage decline has been less than the majority of bear trends. Admittedly, the 2020 erosion was more than 1956-57's (F.; 20.6pc) and

1980-82's (H.; 28.2pc), and matched that of 1987 (I.; 36.1pc), so the 2020 fall has been sufficient enough to look for a trend change. Although the time factor is more important (the 2020 decline is briefer in duration than all the other bear retreats), on balance this distance parameter also points to lower American stock prices.

However, players must not be dogmatic regarding marketplace probabilities based upon this historical review. The awe-inspiring central bank and fiscal aid nevertheless provide major support for US stock prices. Given that factor, perhaps this time will be different, and the stock bear trend which erupted in February 2020 will last merely one month.

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A ten percent fall in the S+P 500 from 3394 (2/19/20) equals 3055, a twenty percent bear drop is 2715. A twenty-five percent dive is 2546, with a thirty-three percent collapse 2260, a fifty percent crash 1697.

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American stock marketplace history reveals significant rallies price within major bear trends. Let's first recall the horrific 1929 crash. Its initial bloody downturn lasted only about two and one-half months, but was almost fifty percent. After the Dow Jones Industrial Average peaked at 386.1 on 9/3/1929, it cratered to 212.3 on 10/29/19, then deteriorated further to 11/13/29's 195.4 (49.4pc decline). The DJIA climbed sharply for several months thereafter, attaining its interim high at 297.3 on 4/16/30, a 52.1 percent advance.

The S+P 500 displayed a few fairly dramatic rallies during its mournful 2007-09 descent. Remember 10/11/17's 1576 pinnacle. It declined 20.2 percent to 3/17/08's interim low. Perhaps inspired by marketplace faith that the twenty percent bear trend barrier would not be pierced by much or for long, the S+P 500 rallied for two months, reaching its final top on 5/19/08 at 1440 (14.6pc rally). During the subsequent terrifying descent, at times the S+P 500 sharply rose. From 10/10/08's 840, it spiked 24.3 percent in merely four days to 10/14/18's 1044. From 11/21/08's interim low at 741, the S+P 500 marched 25.2 percent higher over about six weeks; the interim rally ceased with 1/7/09's 928.

From 3/23/20's 2192 low, a ten percent rally is 2411, a twenty pc bounce 2630, a twenty-five pc jump 2740. A thirty-three percent climb equals 2922; this is close to 1/26/18's 2873, the autumn 2018 interim tops at 2941 (9/21/18)/2940 (10/3/18), and 5/1/19's 2954. A leap of fifty percent from 3/23/20 equals 3288, fairly close to 2/19/20's summit. A fifty percent retracement of the bear move from 3394 to 2192 is 2793.

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Is it possible that the flood of money provided by the Federal Reserve and its allies will benefit Wall Street and help support the S+P 500 (after all, nominal interest rate yields are low), while doing comparatively little for Main Street?

US CORPORATE EARNINGS

Before the economic wreckage following the emergence of the coronavirus disaster, US earnings for the S+P 500 were essentially unchanged. For full calendar year 2019, according to FactSet ("Earnings Insight", 4/3/20), they rose merely .1 percent year-on-year. Refinitiv states that corporate earnings edged up 1.9pc in 2019 relative to 2018 ("S&P 500 Earnings Scorecard", 3/27/20).

FactSet predicts a ten percent year-on-year earnings nosedive for first quarter 2020 for the S+P 500 (4/9/20). For S+P 500 2Q20 earnings, it expects an even more murderous retreat, -20.0 percent year-on-year. The 3Q20 earnings also fall substantially, -8.5pc versus 3Q19. The 4Q20 revenues allegedly will dip less than one pc (-.9pc) relative to 4Q19. For full calendar year 2020, FactSet states that analysts project a sharp earnings decline of -8.5pc.

Refinitiv's review of the S+P 500 calendar 2020 earnings outlook likewise is gloomy. First quarter 2020 earnings deteriorate -9.0 percent versus 1Q19. Second quarter 2020 earnings are eviscerated, crumpling -20.7pc year-on-year. The 3Q20 earnings wither 9.4pc relative to 3Q19. Those of 4Q20 slump less, declining -2.4pc against 4Q19. For full calendar year 2020, earnings retreat a massive -9.4pc year on year.

According to FactSet (4/9/20), optimism returns for full year 2021, as year-on-year S+P 500 earnings blast 18.2 percent higher. Refinitiv matches this happy opinion, with 2021 earnings flying 19.0 percent higher versus 2020's.

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The American and international economy likely are, or soon will be, in recession. Unemployment has spiked. How quickly will consumer demand recover? Will the US and global economy, even with the assistance from central bankers and fiscal spending, really improve so decisively in 2021 that it will propel corporate earnings sharply higher?

US CONSUMER AND CORPORATE DEBT: PRE-CORONAVIRUS

Prince sings in "Let's Go Crazy":
"Dearly beloved, we have gathered here today
To get through this thing called life".

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Before the coronavirus pandemic began creating havoc, as a percentage of GDP, the American household debt total was less burdensome than during the global crisis and its immediate aftermath (given overall boosts to consumer net worth since 2008-09). According to the Federal Reserve's "Financial Stability Report" (May 2019; p17), the household debt to GDP ratio had declined. According to the Financial Stability Oversight Council's "2018 Annual Report" (updated 6/20/19; Figure 4.4.1, p28), household debt as a percent of disposable personal income fell in recent years.

Yet the substantial household arithmetic debt amount was a danger signal pointing to potential pressure on and damage to the consumer front, particularly if the economy weakened and stock and home prices declined significantly. See "US Dollar Travels: Crosstown Traffic" (7/2/19).

US consumer spending represents about 68.0 percent of American GDP (Federal Reserve; Financial Accounts of the United States; Z.1, Table F.2; 3/12/20). Even if the coronavirus pandemic disappears relatively quickly, how rapidly will the shattered consumer sector race to resume its prior buying habits? Between unemployment concerns and a relatively high arithmetical debt level prior to the coronavirus devastation, most persons probably will be cautious spenders for quite some time.

American household debt has swollen in arithmetical terms over the past few years. According to the New York Federal Reserve Bank (February 2020), aggregate US household debt at the end of 4Q19 tallied $14.2 trillion dollars, smashing further above the previous peak achieved during the global economic crash (3Q08) by about $1.5 trillion.

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What about US corporate debt? According to the Financial Stability Oversight Council, "the ratio of [nonfinancial] corporate debt-to-GDP is at an all-time high based on available data since 1951" (p25; see Figure 4.3.1). The Fed's Financial Stability Report (p17) confirms that business sector debt relative to GDP nowadays is historically high; "growth in business debt has outpaced GDP for the past 10 years".

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