

March 20, 2020

Marketing Material

# THE CRASH FROM A DIFFERENT PERSPECTIVE

The S&P 500 trades about one third below its high. This means that all price gains since the start of 2017 have disappeared. In 2008/09 much more was wiped out.

Just one month. On February 19, the S&P 500 reached its record high of 3,393.52 index points. On February 24, the U.S. President tweeted<sup>1</sup> that the United States had largely controlled the coronavirus and that the stock market was starting to look good. The more important misjudgement in Trump's assessment in our opinion is related to the virus. The United States lost weeks of possible preparation time and now suffers from a rapid spread of the virus.

In the meantime, the President is, at least, not alone in being wrong regarding the equity markets. The S&P 500 has dropped by 30.25% from its high. Quite a number, without question. And in all probability, it could get worse. But how does this crash compare with other major market corrections during the past 35 years?

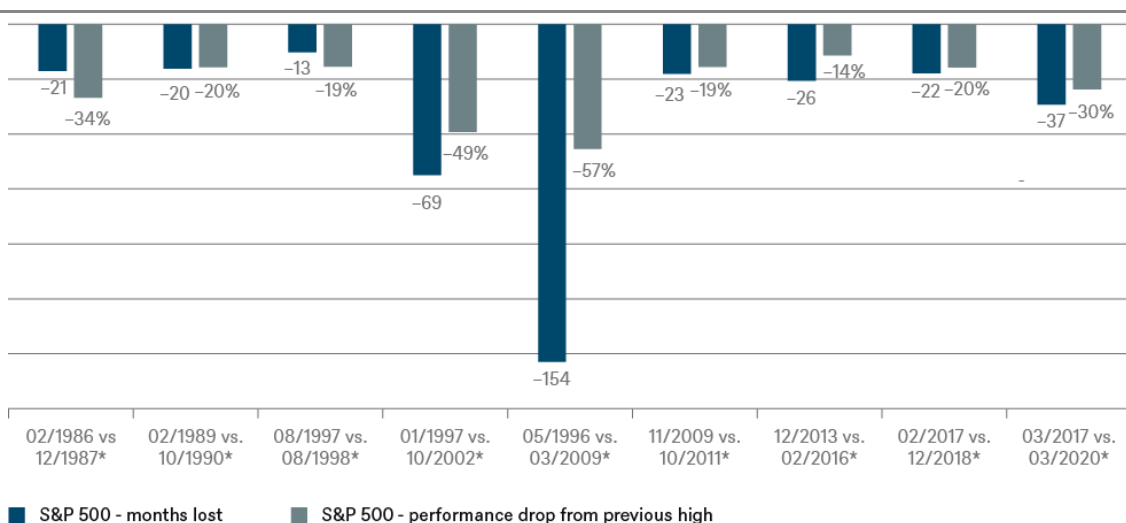
As we see in our "Chart of the Week," the performance loss is not yet high enough to make it to the top but third place is within reach. To match the financial crisis of 2008/09, the index would have to lose another 40% or so and sink to 1,450 points. We think that the current correction is – so to say – not quite up to that, as young, however, as it still is.

But there is another way of assessing a market crash – by considering how long it took the index to build up the gains that have been swept away. In other words, how many months of saving were lost in the correction? Well, the current

level of the S&P 500 was first reached in March 2017. Therefore 37 months of price gains have gone down the pan. The record, however, is 154 months, which were lost in the correction that took place between late 2007 and March 2009. What about Germany's Dax? We are now at the levels last seen in May 2013 – an almost seven-year retreat. However, the Dax is a performance index that includes dividends. For the Dax price index (excluding dividends), as well as for the Euro Stoxx 50 and the FTSE 100, the picture is much gloomier: these indices first traded at current levels in 1997/1998. The S&P 500 performance index, on the other hand, is trading at levels first seen in September 2017. Not a big difference to the original price index.

We have made the following four observations:

1. U.S. equities have performed significantly better than the European ones in recent years, thereby attaining higher peaks.
2. There have been far worse U.S. market corrections than what we have seen so far in the current one.
3. Combining 1. and 2., the U.S. might have more room for a correction compared to Europe.
4. Dividend income has become a more important component of total return for European equities than for U.S. equities.



\* Shown is the date at which the index hit its low as well as the date at which this level was first reached. Sources: Refinitiv, DWS Investment GmbH as of 3/18/20

<sup>1</sup> Trump Tweet from January 24: "The Coronavirus is very much under control in the USA. We are in contact with everyone and all relevant countries. CDC & World Health have been working hard and very smart. Stock Market starting to look very good to me!" All opinions and claims are based upon data on 3/18/20 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH

## GLOSSARY

The **Dax** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

A **dividend** is a distribution of a portion of a company's earnings to its shareholders.

The **Euro Stoxx 50** is an index that tracks the performance of blue-chip stocks in the Eurozone.

The **financial crisis** refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

The **FTSE 100** is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

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