

The history of stock market recoveries

Global Equity Markets



Stock markets can be volatile and, throughout history, have experienced downturns as well as periods of rising returns. In the midst of a bear market, predicting when a long-term market recovery might start is difficult, if not impossible. Accordingly, investing in stock markets requires a long-term approach. By staying invested throughout difficult times, investors have a better chance to capture all of the potential upside as soon a bull market starts to appear.

Using global equity markets as an example, the below chart demonstrates the duration of various stock market downturns since 1970 and the subsequent recoveries. Downturns are defined by a time period when the stock market value declined by 10% or more from its peak, while the recovery period indicates the number of months from the trough of the downturn to the subsequent peak.

Although there appears to be no steadfast rule about the length of time it takes for the stock market to bounce back, what this does prove is that the returns from the subsequent peak have typically far outweighed the losses of the previous downturn (see bar chart). It also demonstrates that when markets do bounce back, the highest percentage increase tends to be in the first three months.

Global stock market downturns and recoveries: 1970–2008

Dates of downturn	Duration of downturn (months)	Dates of recovery	Duration of recovery (months)	3 months later %	6 months later %	9 months later %	12 months later %	Loss during downturn (cumulative % return)	Gain during recovery (cumulative % return)
04.1970 – 06.1970	3	07.1970 – 01.1971	7	13.6	20.4	33.2	36.0	-16.9	26.1
11.1973 – 09.1974	11	10.1974 – 12.1977	39	6.5	34.2	45.3	29.9	-38.7	67.6
03.1980	1	04.1980 – 05.1980	2	17.6	27.8	34.4	36.0	-10.6	12.1
05.1981 – 07.1982	15	08.1982 – 11.1982	4	15.5	30.1	47.7	48.4	-16.6	21.7
04.1984 – 07.1984	4	08.1984 – 12.1984	5	11.0	19.3	23.6	35.1	-10.1	13.0
09.1987 – 11.1987	3	12.1987 – 11.1988	12	13.1	15.7	11.3	28.2	-20.4	28.2
01.1990 – 09.1990	9	10.1990 – 03.1993	30	9.9	20.8	16.9	25.3	-24.0	35.5
07.1998 – 08.1998	2	09.1998 – 11.1998	3	17.6	22.8	28.1	33.5	-13.4	17.6
04.2000 – 09.2002	30	10.2002 – 01.2006	40	7.7	2.4	20.1	26.0	-46.3	90.9
Average	8.7	Average	15.8	12.5	21.5	29.0	33.2	-21.9	34.7

Sources: BlackRock; MSCI, Datastream (December 1969 – April 2009)

See important information overleaf.

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