

October 2008 in Historical Context

Global stock markets in October generated attention-grabbing negative returns. Developed markets, as measured by the MSCI World Index, declined 19% and, following the large 12% decline in September, the year-to-date negative returns totaled 40% by the end of October. Emerging markets fared even worse with a 28% decline in October on top of the 18% decline in September to contribute to a year-to-date return of negative 54%.¹

While the October 2008 returns seemed shockingly large in magnitude, how bad were they really? In this Research Bulletin, we examine the October 2008 returns in historical context by making comparisons across markets and time. With their consistent methodologies and long histories, the MSCI Equity Indices allow us to make these 'apples-to-apples' comparisons. We find that while October 2008 was, indeed, exceptionally bad, the severity depended on the market, the frequency of the returns examined, and the currency over which returns were calculated.

Comparing Past and Recent Returns

A number of crises have stricken the equity markets since the end of 1971, including the:²

- 1973-1974 protracted decline following the end of Bretton Woods,
- October 1987 crash,
- Early 1990s bear market, particularly in Asia,
- 1998 LTCM crisis,
- 2000-2001 bursting of the technology bubble, and
- 9/11.

These various crises hit regional markets differently, often in terms of both severity and length, and as a result, October 2008 was not always the worst month in terms of historical returns, depending on the region and the period over which we examine returns.

Daily and weekly returns provide the most sobering picture of October 2008 returns. We examined the daily and weekly returns for five major MSCI Equity Indices with daily histories back to December 31, 1971. As Table 1 shows, 40% of the worst 20 daily returns for the MSCI World Index were in October 2008. Furthermore, for the MSCI World, USA, and Europe Indices three out of four weeks in October 2008 made it into the top 5 of the worst weeks since 1971. Finally, as Figure 1 shows, the magnitude of the losses during the week of October 10, 2008 (-20.1%) far outstripped those of the second worst week ending on October 23, 1987 (-13.9%).

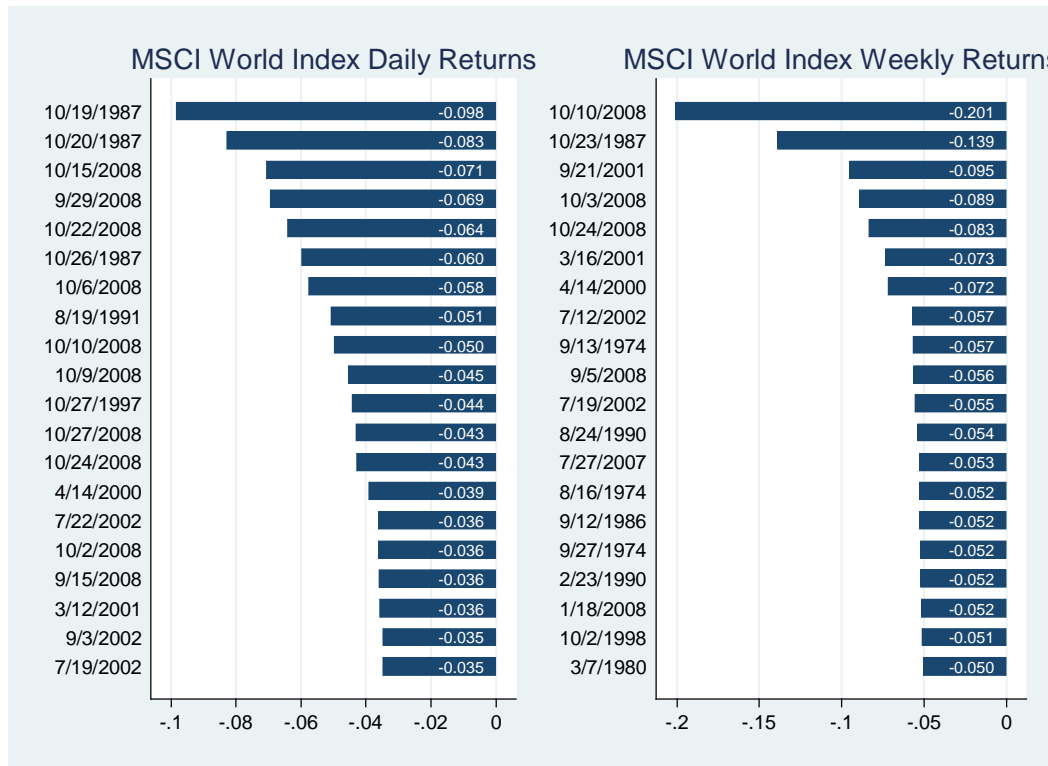
Table 1: October 2008: Percent of Top 20 Worst Daily Returns (MSCI Indices, USD)

	<u>Daily Returns</u>
MSCI World	40%
MSCI USA	20%
MSCI Europe	35%
MSCI Japan	20%
MSCI UK	35%

¹ MSCI Emerging Markets Index. See also, "Business News with Nick Cosgrove," BBC, October 31, 2008.

² The end of 1971 marks the beginning of the daily history for some of the MSCI Equity Indices including the MSCI World Index.

Figure 1: MSCI World Index: Top 20 Worst Daily and Weekly Returns since 1971 (USD)



However, there are regional differences. As Table 1 shows, October 2008 returns figure less prominently for the US and Japan. For the US, returns related to the 1987 crash and from September 2008 feature more often on the list of worst daily returns (6 of 20), whereas for Japan, the bear markets of the 1990s led to some major drops such as the 8.1% decline on April 2, 1990. In terms of weekly returns, the 1973-74 crisis hit the US more heavily than Japan; no 1974 returns appear on Japan’s list, while four 6% to 9% declines appear on the US list.

There are also important currency effects, depending on the region. The USD’s 15% depreciation against the JPY from about 110 in August 2008 to about 93 at the end of October 2008 meant that the USD returns for the Japanese market looked better compared to local currency terms; the percent of Top 20 worst returns increases from 20% to 30% in local currency terms. An examination of the MSCI Pacific ex Japan Index³ leads to more dramatic differences – but in the opposite direction. Since the USD has appreciated against the currencies of the countries in the index (with the exception of those that are pegged to the USD), the negative October returns were exacerbated in USD terms (6 of 20 worst returns in USD terms versus only 3 in local terms).⁴

The monthly USD returns show a similarly sobering picture. For all indices considered except MSCI Japan, October 2008 was the worst or second worst month in nearly 40 years (see Table 2).⁵ October 2008 was the worst performing month for the MSCI World and MSCI Europe Indices with October 1987 being the second worst. The reverse was true for the MSCI US and MSCI UK Indices with October 1987 topping the list and October 2008 in second place. In Japan, October 2008 was “only” the fourth worst return.

3 Australia, Hong Kong, Japan, New Zealand, Singapore

4 Daily history for the MSCI Pacific ex Japan begins at the end of 1985.

5 Monthly history for many MSCI Equity Indices begins at the end of 1969.

Table 2: Top 10 Worst Monthly Returns Since 1969 (USD)

MSCI World		MSCI USA		MSCI Europe		MSCI Japan		MSCI UK	
Date	Return	Date	Return	Date	Return	Date	Return	Date	Return
10/31/08	-19.0%	10/30/87	-21.5%	10/31/08	-21.3%	03/30/90	-19.4%	10/30/87	-21.7%
10/30/87	-17.1%	10/31/08	-17.2%	10/30/87	-19.2%	11/30/93	-16.6%	10/31/08	-19.1%
08/31/98	-13.5%	08/31/98	-14.0%	11/30/73	-15.3%	09/28/90	-16.4%	09/30/81	-18.3%
11/30/73	-13.2%	09/30/74	-11.9%	09/30/08	-15.2%	10/31/08	-14.8%	03/29/74	-16.3%
09/30/08	-12.1%	09/30/02	-11.4%	03/31/80	-14.6%	11/30/73	-13.9%	06/30/75	-15.9%
09/30/02	-11.1%	11/30/73	-10.8%	09/30/02	-13.2%	10/31/86	-13.4%	11/29/74	-15.8%
03/31/80	-11.1%	08/31/90	-9.4%	08/31/98	-12.7%	04/30/70	-12.4%	11/30/73	-15.1%
09/28/90	-10.8%	09/30/08	-9.3%	09/28/90	-12.0%	05/31/84	-12.4%	09/30/08	-15.0%
08/30/74	-9.9%	08/30/74	-9.3%	07/31/02	-11.2%	11/30/90	-12.1%	08/30/74	-15.0%
09/30/74	-9.6%	03/31/80	-9.3%	08/30/74	-10.6%	09/30/08	-11.9%	03/31/80	-13.6%

However, the picture is different, and dramatically different for some markets, in local currency terms (see Table 3). The USD's appreciation against many currencies during the current crisis leads to a distorted view in USD terms depending on the time period and frequencies examined. In local currency terms, while October 2008 remains high up the list of worst performing months for the MSCI World Index in second place, it drops to fourth from first place for MSCI Europe, and in the UK, as measured by the MSCI UK Index, it is not even among the worst 10 returns (coming in at number 11). In the same period that the USD declined 15% against the JPY, it appreciated 19.2% against the GBP. In local currency terms, the UK market only fell 10.8%, but the additional 9.1% depreciation in the pound versus the dollar adds up to the approximately 19% decline in USD terms. Similarly, for Japan, the yen's appreciation leads to a more attractive October 2008 returns scene in USD terms, but as Table 3 shows, October 2008 tops the list in local currency terms.

Table 3: Top 10 Worst Monthly Returns Since 1969 (Local Currency)

MSCI World		MSCI Europe		MSCI Japan		MSCI UK	
Date	Return	Date	Return	Date	Return	Date	Return
10/30/87	-19.7%	10/30/87	-23.6%	10/31/08	-21.1%	10/30/87	-26.1%
10/31/08	-16.5%	09/30/02	-14.3%	09/28/90	-19.6%	03/29/74	-19.6%
08/31/98	-13.9%	08/31/98	-13.9%	11/30/93	-16.1%	09/30/81	-16.5%
09/28/90	-11.9%	10/31/08	-13.6%	03/30/90	-14.5%	11/29/74	-15.4%
11/30/73	-11.6%	09/28/90	-11.9%	09/30/08	-13.8%	09/30/08	-13.0%
09/30/02	-11.2%	09/30/08	-11.9%	08/31/98	-13.4%	08/30/74	-12.8%
09/30/08	-11.0%	07/31/02	-11.7%	08/31/71	-13.1%	09/30/74	-12.8%
08/31/90	-10.5%	01/31/08	-11.5%	10/30/87	-12.6%	09/30/02	-12.0%
09/30/74	-10.0%	08/31/90	-11.3%	04/30/70	-12.4%	11/30/73	-12.0%
04/30/70	-9.6%	11/30/73	-11.3%	08/31/90	-11.5%	06/30/75	-11.0%

Conclusions

How bad was October 2008? By any measure, the returns for the month were among the worst since 1969, the beginning of the MSCI Equity Indices. However, the severity depended on the market, the frequency over which the returns were calculated, and whether those returns are in USD or local currency terms. Among the worst daily returns, October 2008 days figured prominently, but October 19, 1987 remains the worst one-day drop in the last four decades. In terms of weekly or monthly returns, October 2008 was usually the worst month but, depending on the market and the currency, other crises, such as the 1973-74 decline in the UK or the 1990s bear market in Japan, were sometimes worse or nearly as bad. Despite the severity of the October 2008 downturn, these results show some diversity across markets, frequencies, and currencies, and therefore highlight the possible effects on returns of diversification and currency management.

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