WEEKLY CASE STUDY-5
COVID Stock Market Crash 2020: Facts, Causes and Effects

Overview

From the past four case studies, you must've noticed a similar pattern across all the historic market crashes. Let's go through it again:

It usually starts with a specific sector or industry doing exceptionally well, causing overall market indexes to go up. This uptrend might make the market seem a bit too expensive/overvalued. The value of greed exceeds the fear factor, creating a massive bull run. But over time, a self-correction kicks in, and in some cases, it leads to a market crash.

In such a scenario, industry/sector-related crashes, like the Dot com bubble, can be anticipated to a certain level and avoided by diversifying your investments. But what happens when the entire stock market comes crashing down?

That's what happened during the 2020.

The year 2020 will go down in history for the emergence of the COVID-19 pandemic. It affected over 771 million people and resulted in ~7 million deaths worldwide. During the unprecedented event, fear gripped the stock markets, causing a chain reaction where investors hurried to sell stocks to avoid potential losses. This panic selling created an oversupply of stocks, surpassing demand and causing stock price crashes.

As each investor aimed to offload their investments, the market experienced a swift and widespread decline, emphasising just how collective fear can trigger a rapid collapse in stock prices. But how did it all start? Let's find out!

2020 Stock Market Crash

Let's rewind to December 2019. The world was hit by the unexpected COVID-19 pandemic, causing widespread havoc across various sectors. Governments responded with lockdowns to contain the virus, sending shockwaves through industries that feared unprecedented losses. This, in turn, triggered a global stock market crash in March 2020.

You probably remember the alarming events: on Monday, March 9, 2020, the Dow Jones experienced its worst single-day crash, plummeting by 7.79%. The pain didn't stop there. On Thursday, March 12, the Dow fell again, setting a new record with a 9.9% drop. The following Monday, March 16, saw another significant decline, as the Dow lost around 3,000 points, marking a staggering 12.9% plunge in a single day.

The repercussions weren't limited to the United States. India felt the impact as well, with the Bombay Stock Exchange's (BSE) Sensex taking a hit of 2,919 points or 8.18%. Imagine the panic among investors as most stocks hit their lower circuits right after the market opened on March 9, 2020. The National Stock Exchange's (NSE) Nifty mirrored this decline, experiencing an 8.30% drop on the same date.

These were challenging times, where fear and uncertainty surrounding the pandemic translated into unprecedented turmoil in the financial markets.

How Severe Was the Covid Market Crash?

If you watch the stock market closely, you may know that the 2020 stock market crash is one of the biggest crashes. There have only been two other times in the history of stock trading where we've seen such colossal declines in a single day:

- **Great Depression:**

On December 12, 1914, stock prices fell by 23.52%, triggering the Great Depression.

- **Black Monday:**

On October 19, 1987, stock prices nosedived at 22.6%.

These instances just go to show how serious and rare these market crashes are.

Chronology Of Stock Market Crash 2020

As established at the beginning, a stock market crash doesn’t Here’s how the stock market crash of 2020 unfurled a chronology of how the pandemic and recessionary fears took the stock market down:

February 24-28: In the week of Feb. 24, the Dow Jones and S&P 500 experienced significant drops of 11% and 12%, respectively. These were the largest weekly declines since the 2008 financial crisis.

March 9: The Dow Jones Industrial Average, the leading US stock index, fell by 2014 points. Dow's worst single-day drop in points in history. The S&P 500 also fell by 7.60%. Brent crude prices crashed 22% as expectations for the oil demand remained muted. A drop of 7% in the stock prices in 5 minutes set off the circuit breaker, and trading was stopped for 15 minutes.

On March 11,the Dow closed down 20.3% from February 12's historic high of 29,553 points, the highest in a hundred years. The 20% decline indicated the beginning of a bear market after an 11-year bull run.

One stock index benchmark in each of the G7 countries has been declared to have entered a bear market, a phase in stock trading dominated by a pessimism in sentiment when prices are expected to decline, so demand for stock stays largely muted.

March 12: Also called Black Thursday, the Dow fell a record 10% by 2,352.60 points, a single-day stock market correction. Not just the Dow but stocks across Europe and North America saw prices crashing by over 9%. S&P 500 and Nasdaq dropped by around 9.5% on the day.

In India, BSE Sensex, following the global sale of stocks, fell by 2,919 points, posting an 8.18%, the largest intra-day loss. The NSE NIFTY also recorded a similar decline of 8.30%. The FTSE lost 17% that day.

March 16: The Dow dropped 2997 points, a 12.9% decline; a similar decline was only seen back in October 1929, Black Monday.

By March 24, the stock market crash had wiped clean equity wealth worth 40% of India's

Gross Domestic Product.

Causes of Stock Crash 2020

Uncertainty about how the coronavirus pandemic would set off a possible recession, layoffs, and global economic slump, coupled with compression in oil prices due to the ongoing oil price war between Russia and Saudi Arab, triggered the market reaction that we witnessed post-March 12.

- **Coronavirus Pandemic:**The World Health Organisation declared the coronavirus outbreak a pandemic that set off a series of global lockdowns and travel bans as COVID-19 infections and infection-related casualties leapt across the world, going into lakhs.

Investors, worried about the repercussions of the pandemic on markets and the economy, started pulling their money out en masse, which led to stocks crashing in global markets. The pandemic has brought global trade to a standstill and domestic production to a screeching halt in many countries grappling with the scope of the virus.

- **Trade wars between China and the US:**It is not that the stock market crash was an exclusive result of the pandemic. The markets had been volatile since trade wars between two global superpowers, China and the US, ensued, and trade relations between them worsened. The Dow had seen a decline of 10% from its historic high by the end of February.

If you have retirement savings or other funds invested in the stock market, the crash lowered the value of your holdings. When something like this happens, many people panic and sell their stocks to avoid losing more. But the risk with that strategy is that it's difficult to know when to re-enter the market and buy again.

As a result, you could lose more in the long run if you miss important market gains in the short term. On average, bear markets last 22 months. But some have been as short as three months. Most financial planners recommend you sit tight and wait it out.

- **Crash in Oil Prices:**Oil prices were already under pressure as commodity prices across the board were on a decline owing to pandemic fears as factories stopped milling and production slowed. But on March 8, 2020, Saudi Arabia kicked off a price war by working to bring down oil prices by 64% quarterly after talks with Russia failed to cut down oil production during the pandemic.

What Happened After COVID-19 Crash?

- Since February 2020, the market has seen a long haul in the run, causing a bear market for 2 months until April 7, 2020, when the market and the economy started a comeback, creating a massive bull run. In November 2020, Sensex climbed back to the all-time-high levels of January 2020. During the year 2020, the Sensex crashed 14 times, losing over 1,000 points during each crash.

Summing Up

Keep in mind stock markets often go through ups and downs due to various reasons like wars, political issues, and health concerns. By staying informed about these events, you can get a sense of where the markets might go. Remember, while market crashes are normal, they've always bounced back. So, if you're into long-term stock investing, you'll likely weather these periods just fine.