COVID-19 Pandemic Bear and other Bear Markets

Bear Markets

A bear market is defined by a drop of 20% or more from a prior high (2/19/20). The S&P 500, Dow Jones Industrial Average, Nasdaq Composite Index and other key indexes have all declined 20% below their respective all times confirming bear declines. The uncertainty surrounding the coronavirus, or COVID-19 pandemic, has left many investors wondering what type of bear market is this and what type of recovery can we expect.

History doesn't repeat itself, but it often rhymes. With this thought in mind these are some of the key statistics on prior major bear markets.

- The current Feb-Mar 2020 COVID-19 Bear market may be one of the fastest bears on record. Granted that the 3/23/20 low (SPX – 2,191.86) is indeed a major bottom. This would then imply that it took 34 days for SPX to decline 35.41%. The infamous 1929 Great Depression bear decline took 35 days to reach its extreme low and the 1987 October crash bear took nearly 38 days before recording a major bottom.

- While prior bear markets rarely have experienced massive declines and extreme daily volatilities of this magnitude that occurred during Feb-Mar 2020, it is important to note the shortest of bear markets lasted approximately three months and the longest sustained for a little over 5-years.

- Once the bear market is over, recoveries have on average taken an extensive period to return to its prior highs. The longest duration occurred during the brutal Great Depression bear market. It took approximately 25 years for SPX to finally return to its Sep 1929 high. On the other hand, 2007-2009 Global Financial Bear decline required around 5.5-years to climb back to its Oct 2007 peak.

From a technical perspective, we will compare the technical conditions of today's COVID-19 bear market to previous bear markets focusing on technical metrics such as moving averages, retracements, support and resistance levels, breakdowns, technical patterns and other technical measures. For simplicity's sake, we will focus on the last four major bear markets, namely the Oct 1987 Crash, 2000-2002 Tech/Telecom Dot.com Debacle, 2007-2009 Global Financial Crisis, and the 2020 COVID-19 Pandemic Medical Crisis.

October 1987 Crash (Aug 87-Oct 87)

The Oct 1987 crash from 8/25/87 to 10/20/87 was one of the shorter bears on record, at least from a duration perspective. Nonetheless, it recorded a devastating blow to investors as SPX plummeted -35.94% in less than three months. After recording a major bottom on 10/20/87 (216.46) the subsequent oversold rallies faded near its key intermediate-term resistance zone along with the 50-61.8% retracements (277.07 and 291.42). Notice how SPX also struggled near the top of its 10/19/87 gap down (245.28-281.52) and the pivotal 10/19/87 technical breakdown zone (276-277). We find it also intriguing after failing to clear above the above resistance SPX consolidated via a series of higher-lows that were above its 38.2%-50% retracements (253.71 and 239.49). It is important to recognize this bear market was an exogenous/external event (i.e., program trading and portfolio insurance selling) and it occurred during the middle of the 1982-2000 structural bull. This would then imply this was a counter-trend decline or a cyclical bear within the larger longer-term structural bull trend. It appears the technical conditions associated with the Oct 1987 bear is very close to the current 2020 bear decline.

Tech/Telecom Dot.com Debacle (2000-2002)

The Tech/Telecom Dotcom crash is classified as a bubble burst which ended the 1982-2000 structural bull trend. From 3/24/00 to 10/10/02 SPX fell -50.51% reaching a major bottom at 768.63 (10/10/02). As with bubbles time is required to alleviate the excesses of the prior bull cycle and considerable efforts (an extensive technical base) are needed to repair the technical damages incurred during the downturn. The subsequent oversold rallies during 12/2/02 (954.28) and 1/13/03 (935.05) were especially weak as evidenced by the inability of SPX to clear above its key initial resistance zone corresponding to the 38.2% retracement (1,068/30) from Mar 2000 to Oct 2002 decline as well as the 200-day ma. The subsequent pullback to 788.90 (3/12/03) was also deeper as it led to a retest of the Jul 2002 and Oct 2002 lows at 775.68 and 768.63, respectively. It seems the technical conditions of the Tech/Telecom bear does not match up well with the current 2020 bear market conditions.

Global Financial Crisis (2007-2009)

Global Financial Crisis from 10/11/07-3/6/09 bear decline of -57.69% is considered one of the worst bear markets since the 1929-1949 Great Depression Bear. The bursting of the Real Estate/Credit/Bank bubbles led to a global recession. After achieving a capitulation bottom at 666.79 (3/6/09) an impressive 1-year oversold rally stalled near its key intermediate-term resistance along with the 61.8% retracement (1,008.86) from the Oct 2007-Mar 2009 decline. It is technically important that the strong oversold rally resulted in a move above both key moving averages including the 50-day ma and 200-day ma. In the process, a golden cross buy signal also was confirmed. The subsequent pullback to 1,010.91 (7/1/10) also successfully tested key support just above its 38.2% retracement (1,008.86) from the Mar 2009-Apr 2010 rally. One important point to mention about the 2007-2009 bear market, is that it occurred during the midst of the 2000-2013 structural bear trend. This is in sharp contrast to the current 2020 bear decline since the primary and dominant long-term trend is still the May 2013 structural bull trend.

COVID-19 Pandemic Medical Crisis (Feb 2020-Mar 2020)

So, we now come to the current Pandemic induced bear market of 2020. As noted above the 2/19/20 to 3/23/20 bear decline of -35.41% is one of the fastest bears on record. This exogenous/external medical induced bear led to an unprecedented fall to the 3/23/23 low at 2,191.86. It appears that this may have been a selling exhaustion bottom. Why? As SPX declined to the 3/23/20 low key technical indicators recorded extreme market internal readings. Market internal lows can be a good indication of a major price bottom. A gap up on 3/24/20 (2,301-2,344), as well as a positive outside week (3/23/20), led to an oversold rally that has now surpassed initial resistance at 2,641-2,651 (3/31/20 high and the 38.2% retracement) and medium-term resistance at 2,793.5-2,810 (50% retracement and the 50-day ma).

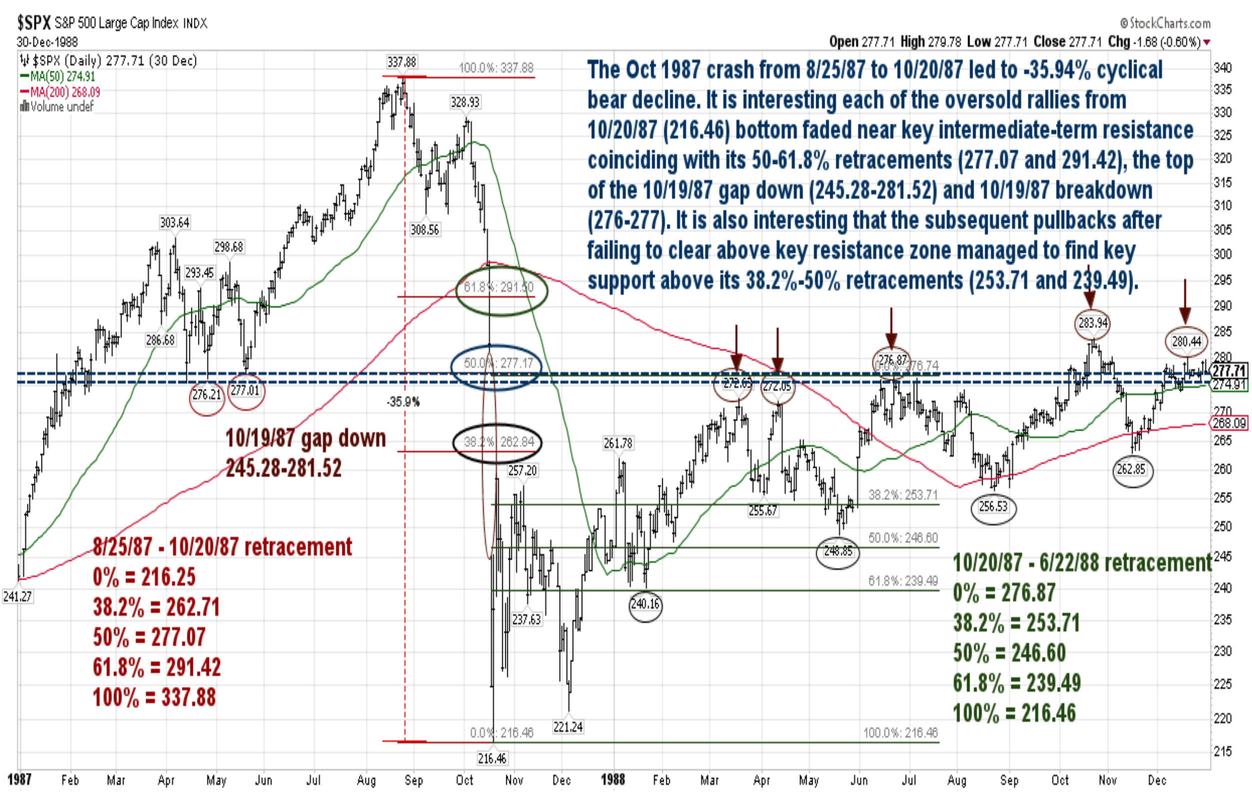
This now suggests a key test of intermediate-term resistance at 2,934-2,966 (61.8% retracement and the 200-day ma). Historically, a breakout above the 61.8% retracement and 200-day ma greatly increases the odds for a retest of the prior high. A convincing surge above the 2/19/20 all-time high of 3,393.52 signals the resumption of the structural bull. Keep in mind that failure to breakout above 2,934-2,966 warns of the potential for the next consolidation. An island reversal pattern on 4/15/20 needs to be closely monitored as this is occurring near intermediate-term resistance along with the 50-61.8% retracements. Nonetheless, we recommend investors and traders adhere to a disciplined risk management strategy by rising supports. Key initial support for SPX moves up to 2,637-2,641 (4/6/20 breakout), and below this to

2,538-2,575 (4/6/29 gap up), 2,447.5 (4/1/20 low), 2,301-2,344 (3/24/20 gap up), and then 2,191.86 (3/23/20 low).

Conclusion:

In summary, the current COVID-19 Pandemic bear decline from 2/19/20 to 3/23/20 seems to resemble two specific previous bears namely the Oct 1987 Crash and the 2007-2009 Global Financial Crisis. Upon further analysis, the current COVID-19 Pandemic Bear is closer to the technical conditions of the Oct 1987 Crash than the 2007-2009 bear market as both were exogenous and external event-driven bear declines. The magnitude of the declines and the duration of the declines are also eerily similar to each other. Both bear markets experienced very strong and powerful oversold rallies that carried the respective technical rallies to major intermediate-term resistances along with their respective 50%-61.8% retracements.

The current SPX oversold rally from the 3/23/20 low (2,191.86) is headed toward a critical phase near intermediate-term resistance associated with the 61.8% retracement (2,934) from the Feb-Mar 2020 decline and the 200-day ma (2,963). The outcome of the test will likely decide the next major directional trend. A convincing breakout reaffirms the recent 3/23/20 low as a major bottom. It also suggests the Feb-Mar 2020 bear decline is a cyclical bear trend within the confines of an on-going structural bull trend (May 2013-present). On the other hand, repeated failures to breakout above the intermediate-term resistance followed by a convincing violation of the 3/23/20 low suggest this is an oversold rally within the context of a structural bear trend.



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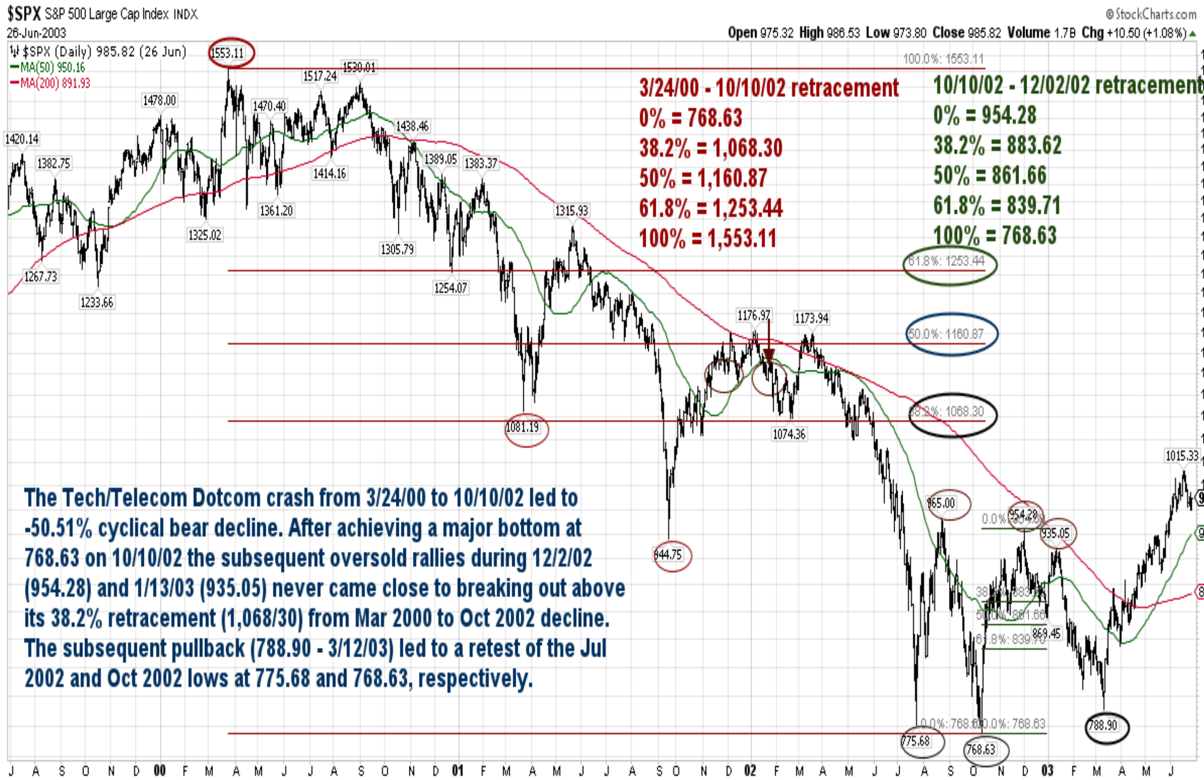

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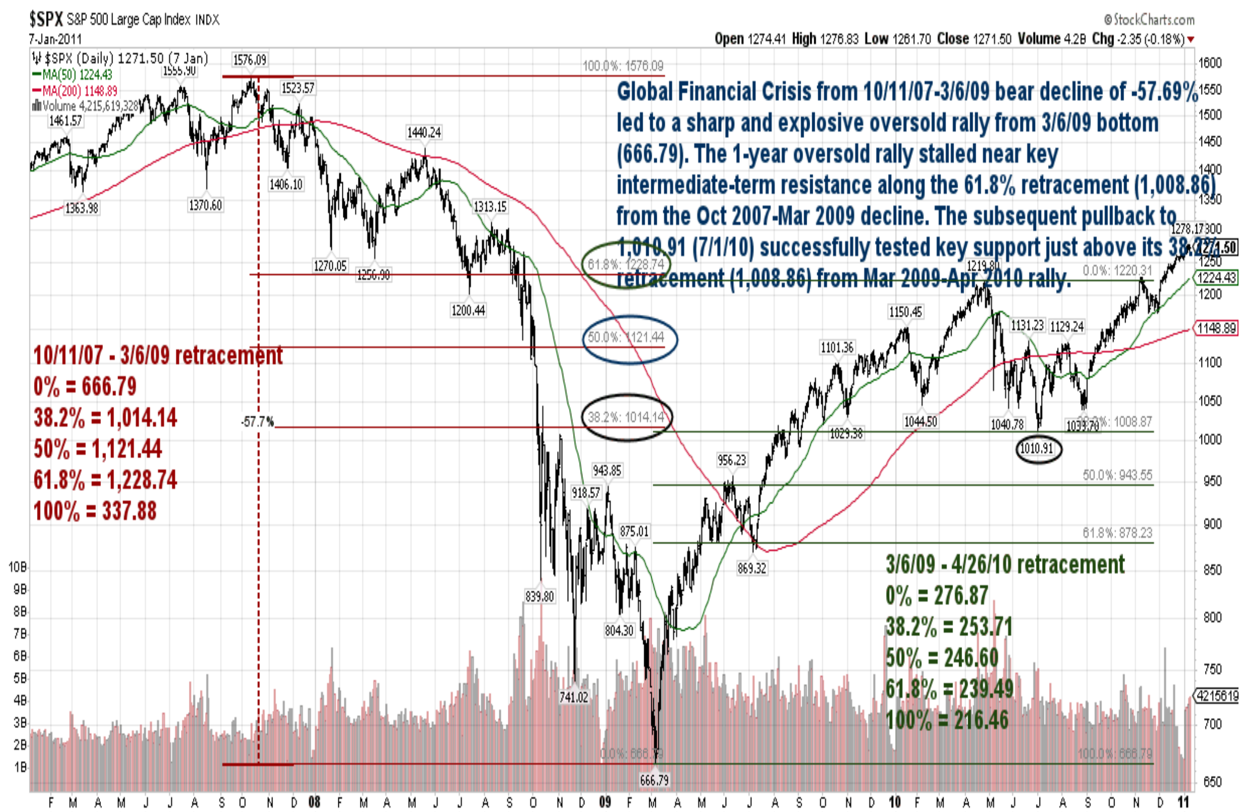

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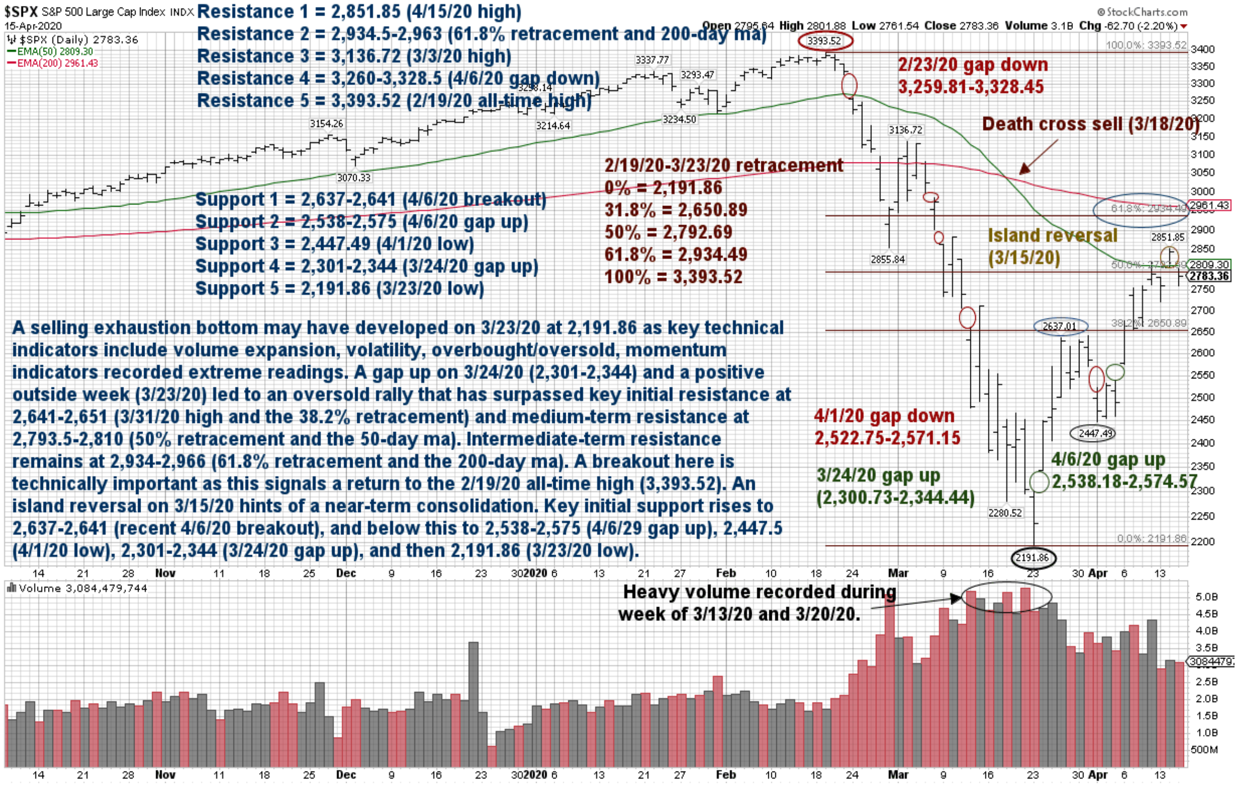

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