Ten years on from the Global Financial Crisis

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Last Wednesday (9 August) marked the tenth anniversary of the start of the crisis that swept through financial markets and economies, the impact of which remains to this day.

Remembering the fallen

It was ten years ago that BNP Paribas suspended dealing on three hedge funds investing in US Mortgage Backed Securities citing a complete lack of liquidity in the markets in which they were trading. That day saw the European Central Bank inject €100 billion into European financial markets to ensure money markets continued to function and an unprecedented era of central bank intervention had begun. Central bank actions halted a spiralling financial meltdown though we still lost some huge names – Bear Stearns, Lehman Brothers, Northern Rock, Merrill Lynch, RBS (almost) and HBOS, which almost brought down Lloyds. We even almost lost Greece.

Are we now in better shape?

A decade on, and with the trillions spent by the central banks, some financial markets have recovered, though economic growth remains underwhelming, structural problems remain and the consequences of central bank policies have been seen in rising inequality, and heightened populism, not helped by mediocre wage growth. We track 71 major equity indices on our performance systems, of that 71 only 6 have posted a negative return over the decade since 9 August 2007. One of them is unsurprisingly Greece – down 92.7%.

Winners and Losers

Returns for sterling investors have been strong, though this has been driven by the weakness in sterling – down almost 36% against the US dollar and down 25% against the euro over the decade.

Equities

- The total return (including dividends) of the FTSE100 is 74.77% in sterling; this drops to only 11.58% when calculated in US dollar, however.
- In sterling terms, of the biggest indices, the US performed the best, with the S&P500 index up 231% and the tech-heavy NASDAQ index up 431%.
- European equities were led higher by Germany, with the DAX index up 121%.
- Emerging markets overall have performed well, equities up 105%, (and emerging market bonds up 226%).

Bonds

- Bonds have served investors pretty well – gilts are up 75%, US Treasuries up 131%, sterling corporate bonds up 68% and high yield up 74%.
- The environment for bonds could not have been more supportive – low inflation and huge buying from the central banks. The next decade may not be so forgiving.

Commodities

- Gold has performed strongly, up 198%
- The oil price is actually up 16% in sterling (but down 26% when measured in dollars).

Property

- Property has been sluggish – the IA Property sector is up 17% though the EPRA UK Property index is up 2% compared to the Global EPRA index up 107%.

Looking forward

In July, the International Monetary Fund (IMF) have stated they were confident the "global recovery is on a firmer footing". The immediate outlook is likely to be driven by geopolitics, not least the escalating rhetoric between the US and North Korea, and also upcoming elections including in Germany and Italy. The unwinding of central banks' balance sheets will impact global bond markets, however, the rhetoric from the banks is often more powerful than the underlying fundamentals and this can also influence equity markets. We do believe a global economic recovery is underway but there will be many obstacles to navigate along the way.

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