Opinion **Personal Finance Advice & Comment**

Stock market crashes: lessons from history

The hum of the helicopters needs to start getting louder

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October 19 1987 became known as Black Monday © PA

Merryn Somerset Webb MARCH 20 2020

I was at school when the FTSE All Share crashed in October 1987. That crash was as sudden as this one.

On October 15, the UK government published the sale details of its remaining stake in BP (this was to be the world's largest ever equity listing). The price was set at 330p. No one was worried. By the 20th, the price was down to 286p and Nigel Lawson was under pressure to pull the issue — using a slightly dodgy *force majeure* clause to do so. He refused and the shares closed at 85p on the first day of dealing.

Our economics teacher asked on the 21st if any of us knew what had happened. We did not. That is the way it should be. What difference should the level of the stock market make to teenagers? It's just one reminder of how this crisis is different. It's a real *force majeure* — comprehensible to, and affecting everyone.

Is it anywhere near over yet? Probably not. This crash hasn't been caused by fragility in the system, but it has certainly been exacerbated by it. We went into it overvalued and overleveraged.

To justify the market levels at January 2020, we needed a strong economy and wonderful earnings season. Instead, we are going to get a sudden and extraordinarily bad global recession (maybe even a depression — a 10 per cent fall in GDP), coupled with relentlessly nasty earnings downgrades (this is one of the very few certainties left in life, by the way).

The worse those look, the more confusing attempts to value this market will get. Note too that despite all the trauma and panic, the US market (and most others) are still only back to where they were 15 months ago in December 2018, when all this was still a distant nightmare, despite the fact that the entire global economy has now come to a hard stop pretty much instantaneously.

This is a reminder of just how intense the upward run of the last few years has been — and how there might be some way down still to go. That might particularly be the case for the US market which remains the only one not trading at well below average valuations on most traditional measures.

So what might turn all this around? Another 20 per cent-odd fall that makes things so cheap everyone buys. A vaccine. An efficient treatment. Us all waking up and finding it was just a bad dream (we've been isolating for a week — I'm watching too much daytime telly already). More certainty as to when the recession ends, beyond a vague idea that it is about three months. On the plus side, we do know more about this recession in terms of its causes and its likely end than would usually be the case.

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However, I think the thing to watch for is a co-ordinated government action that really is so massive it can't be ignored. There's been a lot of it about already. Rates have been cut everywhere and liquidity pumped into markets.

On Thursday, the ECB intervened again. It is to "expand its balance sheet" (this is a euphemism for print money) by another €750bn to buy securities. Later the same day, the Bank of England had another go, bumping up QE and cutting the main bank rate another 0.15 per cent to 0.1 per cent.

Three months ago, I was sure UK rates would never go negative (the downsides are too obvious). Not any more. But the real deal here is not going to be monetary policy — which will never be enough alone. All central banks can do is tee things up for governments to enter a fiscal frenzy and that process is very much under way.

The chancellor has already promised the equivalent of 15 per cent of GDP — some £330bn of loan guarantees to business and more if it is needed (it will be).

In France, President Macron is doing more. He will spend enough to make sure that "no company of any size will be allowed to go bankrupt".

Denmark has come up with a system to lend state-backed cash to any firm losing more than 50 per cent of their turnover as a result of the virus.

In the US they have already started having talks about giving up on the middle man of corporates and just sending every adult a cheque. And everywhere there are conversations under way about how to replace the incomes of absolutely everyone affected in any way by quarantines, lock downs and general misery. That's going to happen — after all, if a government takes action (however necessary) that destroys your income they have to replace it.

We might even soon see something that's been discussed in once niche academic circles for a while — a debt jubilee to help everyone out the other end. Perhaps we just credit every account in the UK with £10,000. If you have debt, it has to go straight into that. If you do not, you just get the cash to spend or save.

We might have to do this for companies too — US corporate debt to GDP is at an all-time high. Who, you might ask, will pay for all this? The new answer is that in the immediate, no one obvious will. Central banks will simply print the cash and hand it over to governments who will pass it on to whoever they like (call it helicopter money, modern monetary theory, monetisation, the People's QE or whatever — however you cut the technical chat, it is all the same thing).

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The new Bank of England governor Andrew Bailey is already partly on board. He has said he is OK with printing money to fund government infrastructure projects. And if he is OK with it for that, why not with the rest? After all, having solvent companies and individuals is as much a part of our economic infrastructure as a new train set.

Without the former we won't be needing the latter. But this has to be fast. There isn't time for protocols, form filling and fraud prevention measures. There will be leakage. It's going to be maddening and it's going to lead us into all sorts of long-term trouble. But it will happen. In an environment in which everyone is asking for help, in which the pain is real, and in which governments have managed to create an academic framework (or figleaf) for helicopter money, there will be new money in every pocket.

While we are mid panic, it is hard to turn this into useful investment advice beyond noting that the fact that the short term is bloody awful does not mean that the long term does not exist.

Not everything comes good: BP is currently trading at 240p! But an increasingly interesting number of stocks are cheap now and most will eventually recover. In the meantime, those of you who do not hold gold really should get some. Mine hasn't done much to protect my portfolio this week (everyone has been desperate for ready cash and gold is easy to sell). But it will.

No one is worried about inflation today. They think that the deflation forces embedded in the economy are such that it will never happen. But print and spend enough money and it will happen. Every crisis leaves a legacy — this one will too.

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This article has been amended since publication to clarify that Nigel Lawson did not pull the BP share issue in 1987 when put under pressure to do so.