2020 is NOT the Same as the 2008 Downturn

It has been almost 12 years since the United States officially entered a recession.

In 2008, large institutions declared bankruptcy, unemployment rates rose to 10%, stock markets crashed, and global governments scrambled to support faltering economies. *Sound familiar?*

On the surface, 2020 appears to repeat the events of 2008. We have seen 33 million jobs lost since the crisis began, single-day stock market dips of 15% and the passing of a $2.2 trillion stimulus package. While these similarities between the two downturns may offer important lessons to policymakers and businesses, it is still important to note the differences this time around.

The unexpected onset, cyclical nature and liquidity availability of COVID-19 contrasts with the gradual, systematic roots of 2008. Based upon this information, it is likely that this downturn will present businesses with more opportunities than the last.

Systematic Problem vs. Black Swan Event

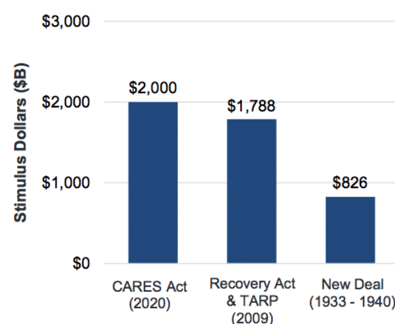
The differences between 2008 and 2020 begins with their origins. 2008 was a systematic financial crisis: subprime mortgages, unstable institutions, and high levels of consumer credit had accumulated for over a decade without notice. These unsustainable systematic imbalances ultimately triggered a market collapse that began in the U.S. but reverberated throughout the world. In other words, 2008 exposed fundamental flaws in the economic and financial systems that would take years to correct.

Meanwhile, the present downturn is a black swan event – unpredictable and impactful. Unlike the Great Recession, 2020 conditions stem from a health crisis. The shutdown triggered by the COVID-19 pandemic has had a relatively small effect on banks: recently, Goldman Sachs beat analyst earnings estimates by $3.5B. The repercussions from 2008 forced many institutions to better equip their balance sheets for future downturns, mitigating problems within our financial systems. Therefore, due to 2020's lack of systematic issues and unexpected nature, it is predicted that the U.S. will experience a quicker economic recovery than expected in 2008.

Gradual Reaction vs. Immediate Response

Another difference between the two downturns is speed: how fast monetary and fiscal policies were put in place and how quickly the economy reacted to recession triggers.

Although the Great Recession officially began at the end of 2007, TARP (The Troubled Asset and Relief Program) was not passed until October 3, 2008. Meanwhile, the CARES Act was signed into law on March 27, 2020 – only a few weeks after the virus began to take its toll on the U.S. economy. The speed of government response to this downturn is an important factor in shielding the economy from short-term impacts of the pandemic, though long-term effects are still up for debate.

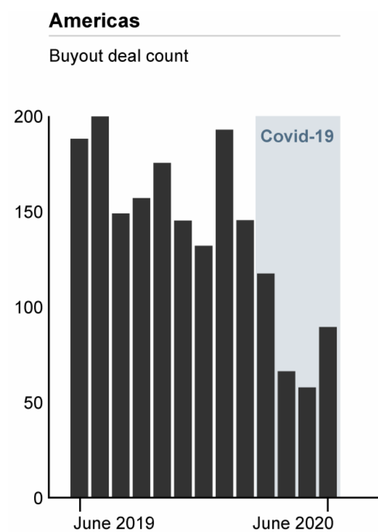


Source: St. Louis FRED 2009 – 2020

Comparing the 2008 and 2020 stock markets, we also identify the same pattern. In 2008, the stock market lost 40% off its peak through the course of one year and did not fully recover until 4 years later. In 2020, the S&P500 fell by 34% between February 19th and March 23rd, the fastest fall into a bear market in US history. Shortly thereafter, it began to grow again and has since almost caught up to pre-pandemic levels. The subsequent growth is a good indicator of investor confidence for the future of our economy, signifying a quicker return to normal. Knowing this information, many companies are already preparing to take advantage of the post-pandemic M&A market.

Debt vs. Liquidity

Near the end of the 2008 recession, an M&A window opened, during which the few companies who were prepared, liquid and risk tolerant made strategic purchases that helped them outperform those who did not.



Source: Dealogic

This time around, investors are much more stable, prepared and liquid. Cash on corporate balance sheets is at $2.4 trillion, interest rates are near zero and corporate tax rates are at 21% (the lowest they have been since the 1930s). Additionally, PE dry powder – a strong indication of investor sentiment – is at its highest ever: $2.5 trillion. Whereas 2008 saw PE activity drop off by 72%, PE deal volume only dropped by 36% in 2020 and is already growing again. These vital differences show a market that is gearing up for acquisitions upon signs of recovery.

An abundance of liquidity, quick external responses and non-systemic roots support that the 2020 downturn will be different than 2008. *But what does this mean for your business?* If you want to learn more about market conditions and their implications, reach out to Strategic Exit Advisors today. As an investment bank for entrepreneurs that was founded during the Great Recession, we can help you gain much needed clarity and take advantage of important business opportunities during these pressing times.

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