

Economic cycles: a view of the last century

Economic cycles, the recurring phases of expansions and recessions, are a useful framework for understanding the drivers of economic growth and decline and can provide context for assessing future developments.

Cycles are typically composed of four different stages: expansion, peak, recession and trough. They can also be characterised as left-translated, where the peak occurs in the first half of the cycle, often indicating a potential bubble, or right-translated, where the peak occurs later, suggesting more sustained bullish conditions.

We can observe the cycles in action by analysing the S&P 500, a valuable indicator of the US economy. Historically, the cycles tend to last approximately 133 months.



Chart 1: Global Financial Crisis and the Covid-19 Pandemic

Chart source: Bloomberg

The first chart highlights the cycle spanning the Global Financial Crisis and the Covid-19 pandemic. While both represent cyclical troughs, they should not be directly compared, as they were driven by fundamentally different factors: financial imbalances and speculation in 2008, while the second was driven by a global health shock in 2020.



Chart 2: from the Wall Street crash to the Korean war

Chart source: Bloomberg

The period between 1929 and 1958 shows two distinct cycles. The first was triggered by the Wall Street Crash, with a peak preceding the start of World War II and a trough around the turning point of the conflict, coinciding with key events such as the Battles of Midway and Stalingrad. The second cycle culminated in a milder recession following the Korean War (1950–1953).



Chart 3: the “Kennedy Slide” of 1962 and the oil shocks of the 70s

Chart source: Bloomberg

This cycle shows a right-translated structure, with a late peak in 1961. It includes the “Kennedy Slide” of 1962, during which the index fell by 22.5%, recovering only after the resolution of the Cuban Missile Crisis. The following years were characterised by heightened volatility, driven by factors including Vietnam War spending, the end of the post-war bull market, and the collapse of the Bretton Woods system in 1971. The 1973 oil crisis triggered a 48% decline, with markets bottoming earlier than the typical cycle duration.



Chart 4: Black Monday and the Dot-com bubble

Chart source: Bloomberg

The bullish cycle of the 1980s ended abruptly on 19 October 1987, “Black Monday”, when global markets experienced a sharp and unexpected crash, with estimated losses of \$1.71 trillion. While some technical analysts later pointed to signals from the Elliott Wave framework, the event remains difficult to predict using any single model.

The following cycle (1998–2008) was marked by the bailout of Long-Term Capital Management and the bursting of the dot-com bubble, ultimately bottoming out in 2008 with the Global Financial Crisis.

Economic cycles provide a useful framework for analysing periods of expansion and contraction, offering insights into past market behaviour and helping to inform future expectations. However, the timing of cycles, including the 133-month duration, does not always align precisely with market troughs.



From a market perspective, the current cycle remains ongoing, with a potential extension towards 2031. However, the increasing frequency of external shocks complicates its trajectory. Whether the ongoing crisis in the Middle East evolves into a disruption comparable to the oil shocks of the 1970s remains an open question.

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Sources:

Bloomberg

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