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A History of Market Volatility: The Biggest Volatility Cycles

TIMELINE

For those with a short memory, it might feel like the stock and currency markets are more volatile than ever, but while the last couple of years of political unrest have caused ripples in the markets, it's nothing like some of the market volatility cycles that have come before.

This timeline uses historical volatility data to trace seismic episodes of market volatility, from the crash of 1929 through to the present day.

1929

DOW JONES

Crash of 1929

Build-Up

The crash of 1929 followed a roaring bull market during the 1920s.

Volatility Spike

The October 28-29 crash saw a two-day loss of 24% in the Dow Jones Industrial Average, with two-week realized volatility rocketing to 127%.

Normalization

After an initial period of decline, volatility began to normalize, with two-week realized volatility settling at 10% after five months.

The After-Effects

The stock market crash devastated the U.S. economy. Almost half of all banks failed, unemployment rose to 25% and international trade collapsed by 65%.

1980

PRECIOUS METALS

Silver

Build-Up

During the late 1970s, the Hunt brothers attempted to manipulate the price of silver in one of the most famous market 'cornerings' ever.

Volatility Spike

The price of silver topped out at over $49 per ounce in January 1980 after trading at only $6 a year earlier. At its peak, volatility spiked at 240%.

Normalization

Following prolonged volatility throughout the spring of 1980, the market began to normalize. Just five months after its spike, two-week realized volatility fell to 12%.

The After-Effects

The price of silver remained consistently low until 2011, when another spike pushed it to a 31-year high of $49.21 per ounce.

1987

STOCK MARKET

Black Monday

Build-Up

Massive speculation excesses built up before the crash of 1987, causing falling stock prices and a volatility spike.

Volatility Spike

Stock market volatility surged following the bull market peak that year. On Black Monday (10/19), short-term volatility peaked at 130% with one-day 20%+ declines.

Normalization

Following the Black Monday collapse, stock market volatility eased off and eventually dropped back to near 10% by the following March.

The After-Effects

The Federal Reserve cut interest rates and stabilized the financial markets to prevent any lasting damage to the U.S. economy.

2008

MORTGAGES AND BANKING

Great Financial Crisis (GFC)

Build-Up

The Great Financial Crisis was driven by irresponsible banking practices on Wall Street, which eventually cost Main Street dear.

Volatility Spike

The decline from 2007 to 2009 was the largest plunge in stocks since 1929. Short-term volatility rocketed to 97% and the VIX index exploded from 36 to 80.

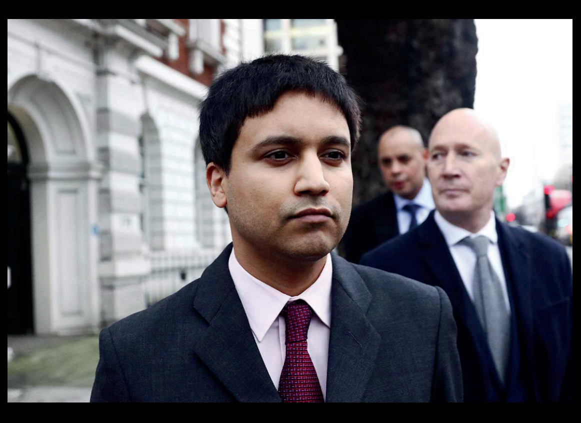
Normalization

In 2010, volatility started to normalize, with two-week realized volatility and the VIX index hitting 20% and 23 respectively.

The After-Effects

Investors bore the scars of the crash for the next four years. It was not until 2013 that the stock market fully recovered.

2010



E-MINI S&P 500 FUTURES

S&P 500 e-Mini Flash Crash

Build-Up

The stock market was in a fragile state, with the VIX Index rising from 15 to 25 in the weeks prior.

Volatility Spike

The 'spoofing' of the S&P 500 e-mini futures by Navinder Singh Sarao pushed the VIX Index past 40 on May 6th, 2010. It peaked three weeks later at 48.

Normalization

Volatility declined and most securities reverted to trading at prices that reflected true consensus values.

The After-Effects

Despite causing the flash crash, Sarao continued to spoof the market until he was finally arrested in London in 2015. By then, he had allegedly made $40m.

2015

EUR/CHF

EURCHF Blow-Up

Build-Up

The Swiss National Bank (SNB) had committed to a minimum exchange rate of CHF 1.20 per Euro, only to then abandon its exchange rate ceiling.

Volatility Spike

When the SNB removed the floor on January 15th, the EUR/CHF collapsed from 1.20 to as low as 0.68, with short-term volatility rising from virtually zero to nearly 100%.

Normalization

After the spike, volatility spent the next three months slowly normalizing.

The After-Effects

The flash crash caused some forex brokers to go bankrupt overnight. It took 1188 days for the EUR/CHF to fully recover from the collapse.

2016

GBP/USD

Brexit

Build-Up

Despite it being a possibility, the UK's vote to leave the EU wasn't expected, causing a surge in exchange rate volatility.

Volatility Spike

The GBP/USD closed 8% down on the day the vote was finalized, with two-week realized volatility exceeding 46% thereafter.

Normalization

Volatility initially fell from 46% to 16% a month after the vote, before entering the typical post-event grind towards normalization of about 7% six weeks later.

The After-Effects

There was another Pound flash-crash in October that saw volatility spiral higher before settling down again towards the end of 2016.

2018

STOCK MARKET

Volpocalypse

Build-Up

U.S. stocks began accelerating in an unsustainable fashion, with two-week realized volatility rising from 3% in September 2017 to 8% in January 2018.

Volatility Spike

Following the January peak, indices plunged for a week and volatility shot up. The VIX Index saw an unusual spike that pushed it to an intra-day high of 50.

Normalization

Like most market volatility blow-ups, the Volcopalypse took several months to normalize to pre-event levels.

The After-Effects

At the end of February, the Dow was around 1,600 points down from its record high in late January.

How Much of a Concern is Market Volatility?

Major spikes in stocks and currency volatility have always been a part of the markets and they always will be. Thankfully, understanding what market volatility looks like and having historical precedence to use as a blueprint offers traders a framework to operate within in the future.

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