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COMPARING 1918 SPANISH FLU FINANCIAL MARKETS WITH TODAY

Timeline for the Spanish flu

While researchers disagree on the origin and exact start date of the Spanish flu, the first reports seem to have originated in late 1917. The first cases in the US were reported in January 1918 in Kansas and the first reported death in March 1918. Similar to the current pandemic, the initial outbreak of the Spanish flu closely resembled the seasonal flu, with generally low mortality rates overall, with seniors the most at risk and the young the least at risk.

The first strain of the Spanish flu subsequently mutated in the summer of 1918 becoming much deadlier. Global deaths increased dramatically, peaking in October of 1918, then rapidly decelerating over the next two months. This was followed by a third “echo wave” that hit in February and March 1919.

It is estimated that the Spanish flu infected more than 25% of the global population at the time, with deaths somewhere in the range of 17 – 100 million.

US equities during the Spanish flu period

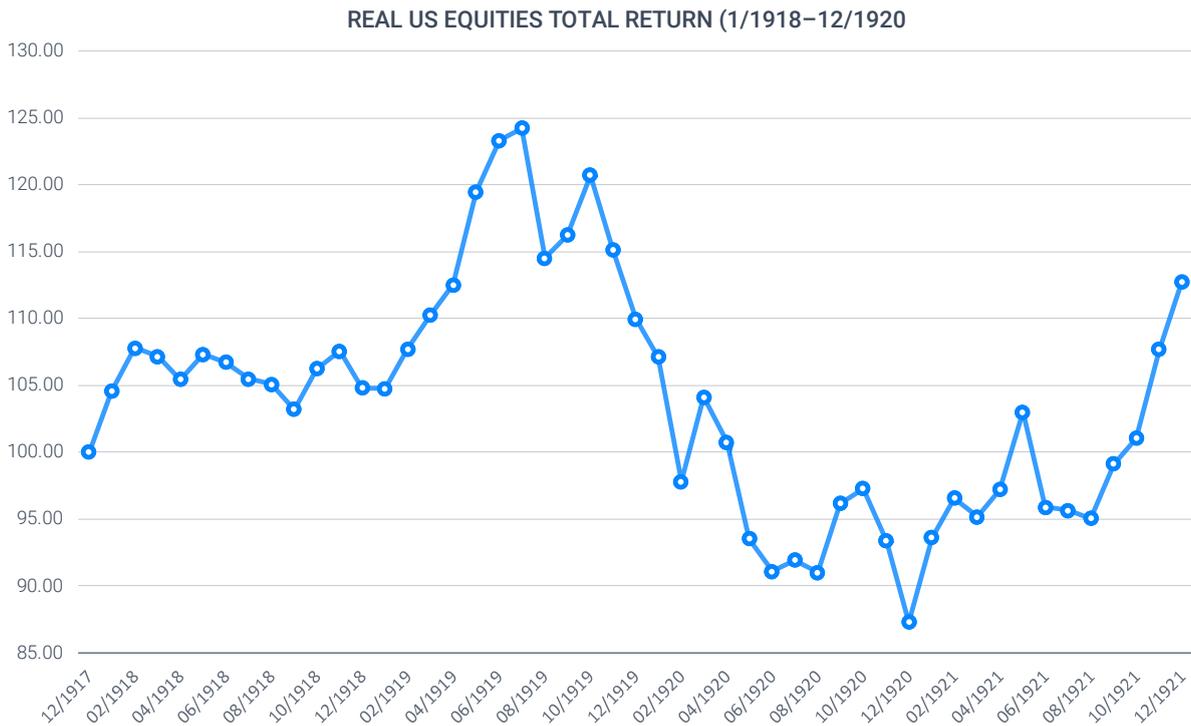
Over the entire period of the outbreak (January 1918 to March 1919), US equities continued to climb, rising about 10% in real total return terms. As the virus disappeared in March 1919, equities accelerated to the upside, rising 13% over the next four months, before falling into a bear market and finally bottoming out in December 1920 after a 32% drawdown.

Similarities and differences

It is difficult to draw similarities between the behavior of US equities during the Spanish flu and the behavior of US equities today. Despite a much higher infection rate than today’s COVID-19 pandemic, the US stock market seemingly ignored the impact of the Spanish flu.

There may be a few reasons for this:

- diseases were not well understood and many times were let to run their course (in the same vein as measles)
- in 1918, the main concern was WW1. It is difficult to separate the impact of WW1 and the impact of the Spanish flu. Furthermore, GDP increased continuously over this period.
- the economy was not financialized, with very few investors as a percent of the overall population
- the global economy was much less integrated, with less capital flows between geographies and
- asset classes.



What are the conclusions we could derive?

As we have seen above, comparing the Spanish flu to today’s COVID-19 is quite tricky as we live in two completely different worlds. However, as at the time of the Spanish flu, the news flow was spreading much slower than today, we might speculate that the market only took notice once the damages on the economy occurred. Today, this happens in only a few days.

During 1919 the US markets sold-off roughly 32% from peak to trough. Today we are at 30% from peak to trough! Does it mean we cannot go down further? Not at all, but at least we have something to compare from two pandemics that are quite similar.

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