MARKETS

The global financial crisis 10 years on: six charts that tell the story

It has been 10 years since the start of the global financial crisis. We show the impact then and during the decade that followed.

31 JUL 2017

David Brett

Investment Writer

30 Minutes
Unstructured Learning Time

It is hard to believe but it is 10 years since the start of the global financial crisis. Triggered by a collapse in the US housing market it caused the deepest recession in living memory and the near-collapse of the financial system.

Banks failed, government institutions were bailed out, stockmarkets crashed and countries had to be propped up financially. We are still feeling the effects: low growth, political upheaval, Brexit (/en/insights/topic-landing-page/?categoryId=458)and even the election of Trump (/en/insights/topic-landing-page/?categoryId=477) can all be traced back to the crisis.

How the global financial crisis began

It all started with the US subprime mortgage market, the corner of the industry that lent to borrowers with poor credit histories, often with little means to meet repayments.

These subprime mortgages were then carved up and repackaged along with traditional mortgages and sold to investors. Convinced that the risk had been spread, what could go wrong?

In the short term it worked, helping maintain a house price boom. In the long-term, it didn't. A rise in the number of borrowers defaulting was the start.

The housing market began to fall and those mortgage investments which had been repackaged became toxic.

Worst of all, no one knew who held the bad debts. Banks, therefore, became wary about of lending to each other. The world stood on the brink.

A seminal day at the start of the crisis was 9 August 2007, when the danger of systemic risk became apparent. French bank BNP Paribas suspended three funds exposed to the US mortgage market. It blamed a "complete evaporation of liquidity".

Here we briefly re-live the main events, look at what has happened in markets since and what it means for investors.

A (very) brief history of the Global Financial Crisis

When	What happened
Apr 2007	The first signs of trouble in the US housing market as subprime specialist lender New Century Financial files for bankruptcy.
Aug 2007	French bank BNP Paribas suspends three funds that invested in the US mortgage market. It blames a "complete evaporation of liquidity".
Sept 2007	In the UK, investors queue to take their money out of Northern Rock – the first run on a bank in the UK since 1866.
Mar 2008	JP Morgan agrees to buy Bear Stearns, which is on the brink of collapse due to its exposure to the failing subprime investments.
July 2008	Authorities prop up America's two largest lenders Fannie Mae and Freddie Mac, two government-sponsored enterprises that bought mortgages from banks.
Sep 2008	US bank Lehman Brothers collapses. Banks and corporations globally begin to fail. In the UK, HBOS is taken over by Lloyds.
Oct 2008	US signs an act to effectively bailout its financial system. UK government steps in to save its banking system.
Nov 2008	The International Monetary Fund begins approving loans to stabilise countries including Ukraine and Iceland.

When	What happened
Dec 2008 – Jan 2009	Global economies begin to go into recession. Central banks cut rates in a co-ordinated effort to stem the crisis.
March 2009	Global stockmarkets hit post crisis lows. Interest rates are reduced to record lows in US and UK. Both countries begin huge quantitative easing measures.
June 2009	OECD says the world economy is near the bottom of its worst recession in post-war history.

What happened in markets and have they recovered?

The VIX

The first inkling that something was wrong should have been seen in the so called “fear gauge”. The Chicago Board Options Volatility Index, or the VIX for short, is one measure of sentiment in the market.

The higher the reading the more likely it is investors believe that there will be a market-moving event, good or bad, in the near future.

As the chart below illustrates, by mid-to-late 2007 the VIX was already at highs not seen since the dotcom bubble in the early 2000s. By early 2010 it had hit an all-time high, by a distance, as the fallout of the crisis threatened the future of the eurozone.

But as governments and central banks intervened to stem the flow of the crisis the VIX subsided. Confidence among investors grew. The VIX is now at historically low levels.

It indicates that investors see nothing on the horizon that will cause extreme market volatility.

The "fear gauge" that shows no fear

VIX index level (%)