Global Investment Research | Equities

16 years in global equity markets since the Global Financial Crisis

A market analysis through the lens of the FTSE All World.

October 2024

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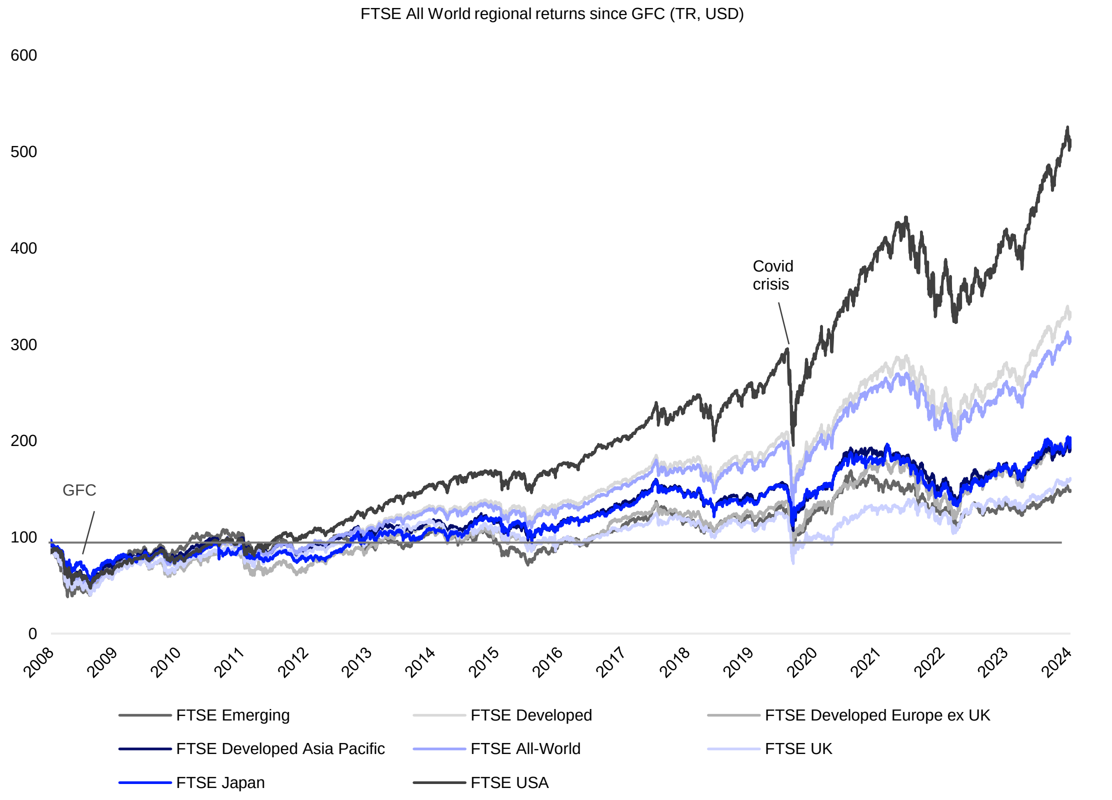
Highlights

- Global equity markets have risen many folds since the global financial crisis (GFC) in 2008-2009, with the FTSE All World returning 216%, or an annualised return equivalent of 7.7% in US dollars
- Divergences in performance within regions can be observed between 2008-24: The FTSE USA gained an annualised return of 11.1% and the FTSE Developed 8.2% in US dollars, the latter benefiting from its high exposure to US equities. These contrast the lower annualised returns of 3.3% for emerging markets, 3.7% for the UK and 4.9% in Europe ex UK
- The US equity weight has increased from 41% in 2008, to more than three fifths of the market weight in the FTSE All World. The Japanese and UK weights have fallen the most over the last 16 years
- Post GFC was the era of the large caps, notably since about 2018, when their market share in the FTSE Total Cap Index (includes micro and small, mid and large caps) increased by 3% to 89% from 86%
- Since 2002, the correlation of the US with the FTSE All World has stayed unchanged at about 97%. Japan has seen the largest increase in correlation from 59% to 88%, while the UK has been the only market to see a decrease from about 86% to 82%
- Technology's rapid rise has displaced traditional industries such as Energy, Financials and Basic Materials in the FTSE All World
- The US has contributed around 181% of a total of about 216% return in US dollar terms during the last 16-year due in part to Technology

Global equity markets have risen many folds since the global financial crisis (GFC) in 2008-2009 and the Covid shock in 2020. As Chart 1 shows, the FTSE All World, which represents medium and large companies from 49 countries in the developed (FTSE Developed) and emerging markets (FTSE Emerging), has gained 216% in returns between December 24, 2007 and August 30, 2024, representing an equivalent annualised return of 7.7% in US dollar terms.

This regional performance also highlights the strength of the US equity market (dark grey line), with the FTSE USA returning 426%, or 11.1% annualised. Strong performance also came from the FTSE Developed (243%, or 8.2% on an annual basis), which has a high exposure to US equities of 69%. However, although positive, emerging markets have registered the weakest returns (52%, or an annual equivalent of 3.3%). Returns in Europe (ex UK) were up by nearly 101% and 66% in the UK in US dollar terms, annualised equivalents of 4.9% and 3.7% respectively, were also comparatively modest, and about half or less of the annualised return of the FTSE USA and of the FTSE Developed.

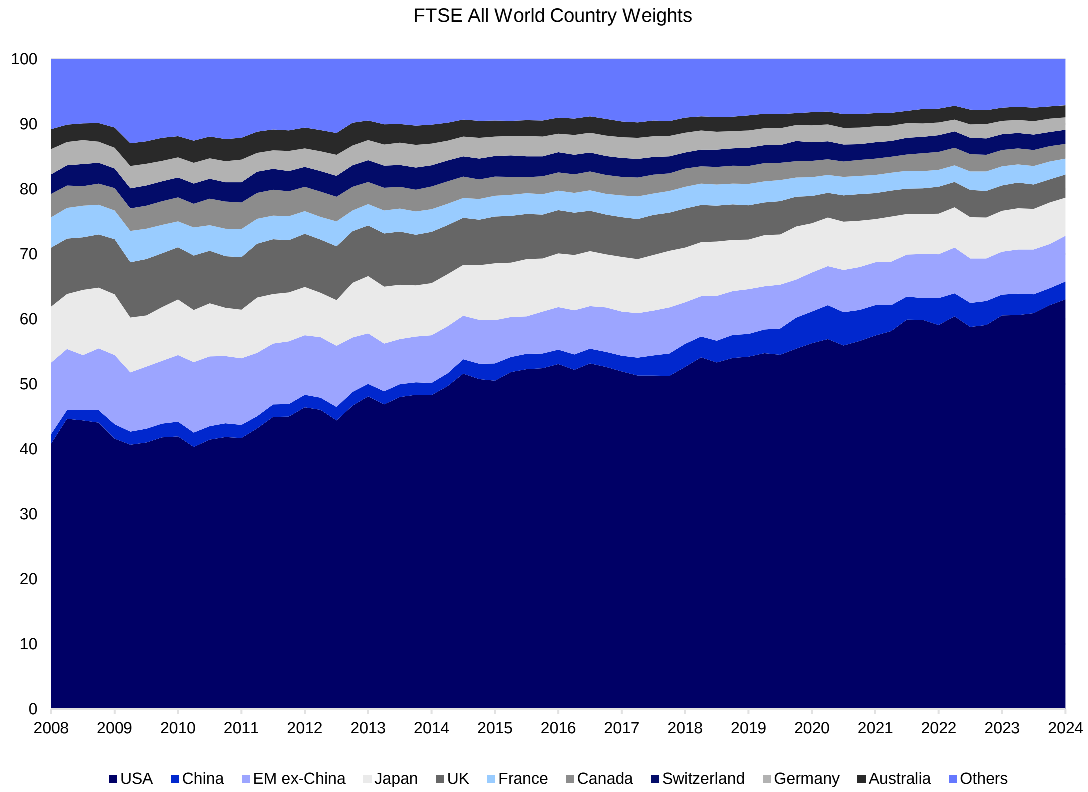
Chart 1. US equities have led the FTSE All World performance since GFC



Source: FTSE Russell, LSEG as at August 31, 2024. Cumulative, monthly total returns in US dollar terms. Past performance is no guarantee of future results. For professional investors only.

As a result of the strong market performance, the US equity weight has significantly increased over the last 16 years. From 41% in 2008, the US today represents more than three fifth of the market weight in the FTSE All World. The Chinese size has also grown overall, with a current weight of just under 3% in 2024 (from 1.5% in 2008), though China's weight has decreased since 2020 from a peak of 5%. By contrast, France and Germany are smaller by about 2% since 2008, while the share of Japan and the UK has fallen by 3-4%, to 5.9% and 3.6% respectively today. Emerging markets (excluding China) have also reduced in weight, from 11% to 7% today.

Chart 2. The size of the UK, Japan and EM (ex China) in the FTSE All World has fallen the most since 2008

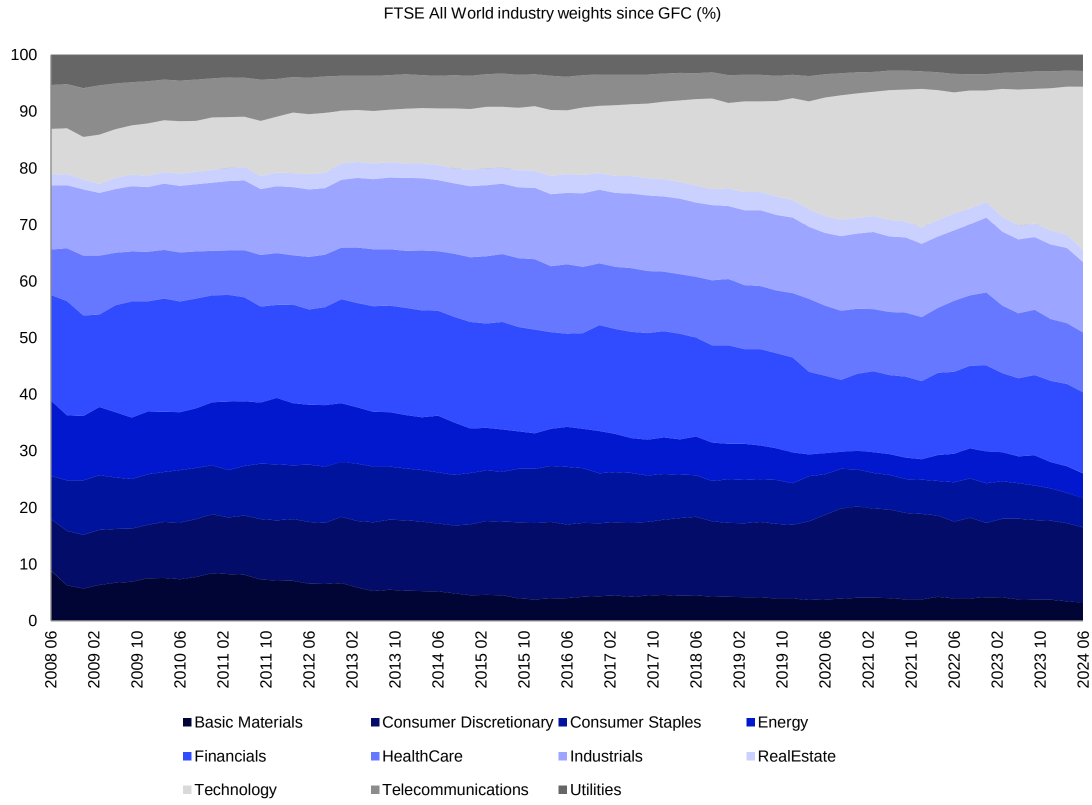


Source: FTSE Russell, LSEG as at August 31, 2024.

Similarly, as country weights have become more concentrated, so has the composition of the industry weighting, with their evolution over the last 16 years reflecting the rise and transition to new industries. As Chart 3 shows, the biggest change is in Technology. From 8%, the market share of the Technology industry has grown exponentially and represents nearly 30% of the global market today. Consumer discretionary has also risen to 13% of the FTSE All World.

As a result of the significant growth in Technology, several industries have seen their position decreased in the global universe, however. Seven of the 11 industry weights in Chart 3 have either fallen or stayed relatively unchanged since GFC. Energy and Basic Materials, once counted among the largest industries, have seen their weights reduced from about 13% and 9%, to 4.5% and 3.2% respectively. Communications, once part of the TMT boom in the 1990s, represents today less than 3% of the global industry weighting, while Financials, once nearly 19% of the global index, is today less than 15% of global equities.

Chart 3. Technology’s rapid rise displaces traditional industries in the FTSE All World

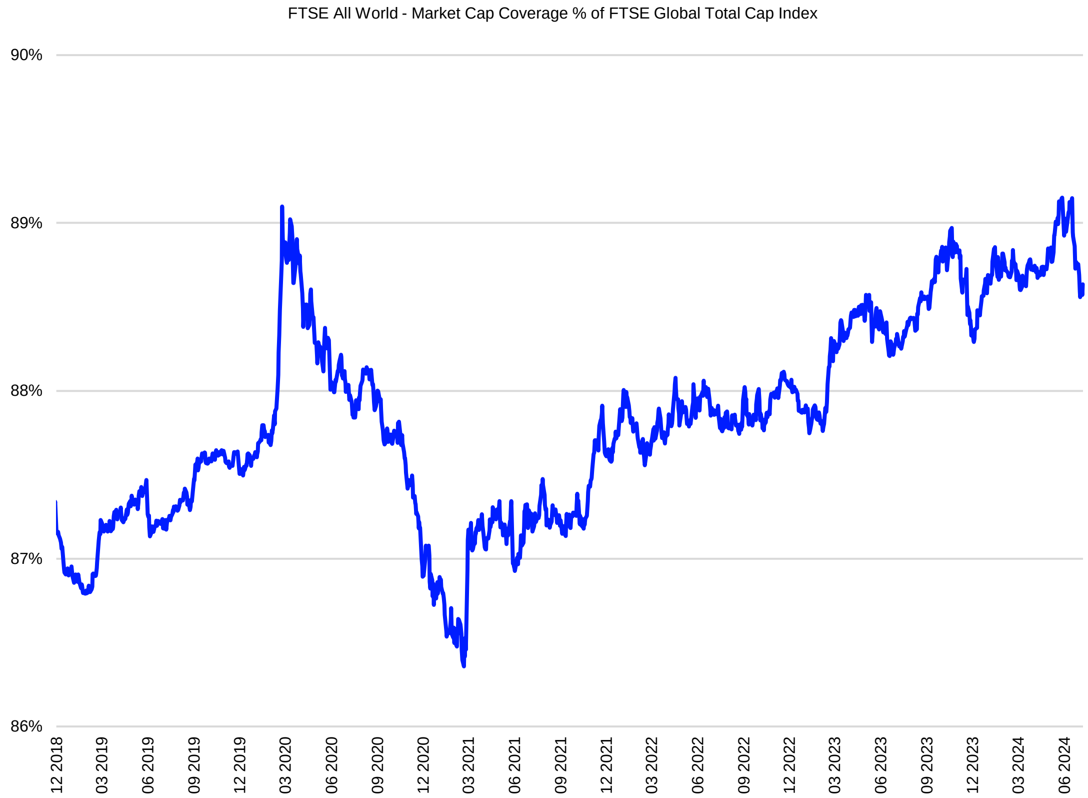


Source: FTSE Russell as at June 30, 2024.

Size matters

Company size has evolved too. Larger companies have gained overall market share during the post-Covid recovery, especially since 2018 as illustrated in Chart 4. The mid and large capitalisation index FTSE All World expanded from about 86% of the universe (represented by the FTSE Total Cap Index, which includes micro, small, mid and large caps) in 2021 to around 89% in 2024 – a level not seen since the Covid shock in 2020. In fact, 2020-2021 was the only period where the share of the larger cap index FTSE All World fell relative to the global universe.

Chart 4. Larger, FTSE All World, companies make up nearly 89% of the total global universe

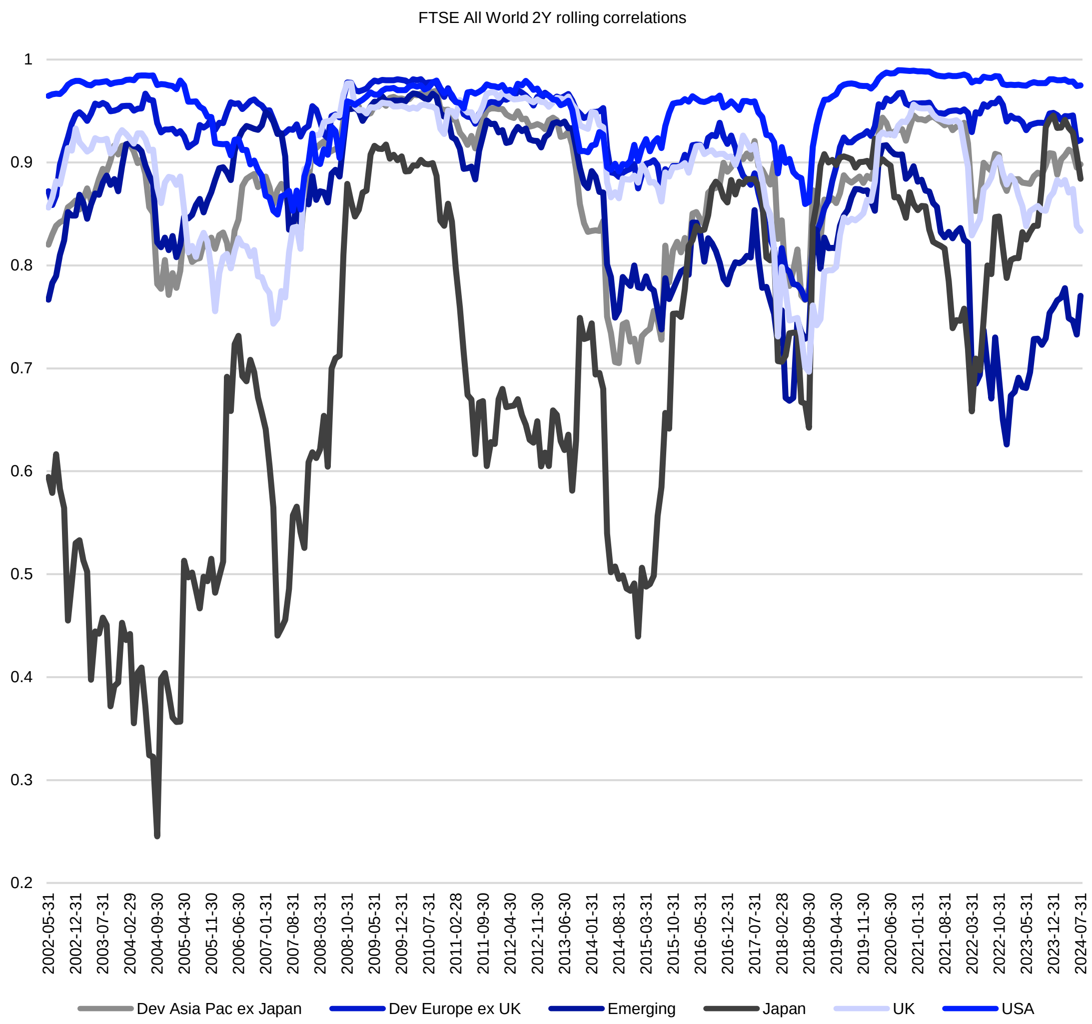


Source: FTSE Russell as at August 30, 2024.

The fall of the UK and EM, and rise of US Technology

Correlation analysis from selected regions of the FTSE All World since 2002, before GFC, also highlights some regional divergences (Chart 5). As may be expected, the FTSE USA has the highest correlation with the FTSE All World, close to 97% today, given its weight in the global universe. However, this was not always the case. The US correlation has varied between 85-97%, having fallen as low as 85% during in 2007 and 2018. In other regions, the correlation with Europe ex UK has increased from 87% in 2002 to 92% in 2024. But the largest change has been with Japan, where correlation has grown from 59% in 2002 to 88% in 2024. Interestingly, the UK is the only market where the correlation has decreased (from 86% to 82% today) with the global universe, with the decline tracking the fall in market share to just under 4% today (from 9% in 2008). The correlation of emerging markets to the FTSE All World has also increased modestly from 77% to 80% today.

Chart 5. The UK and emerging markets are the least correlated to the FTSE All World

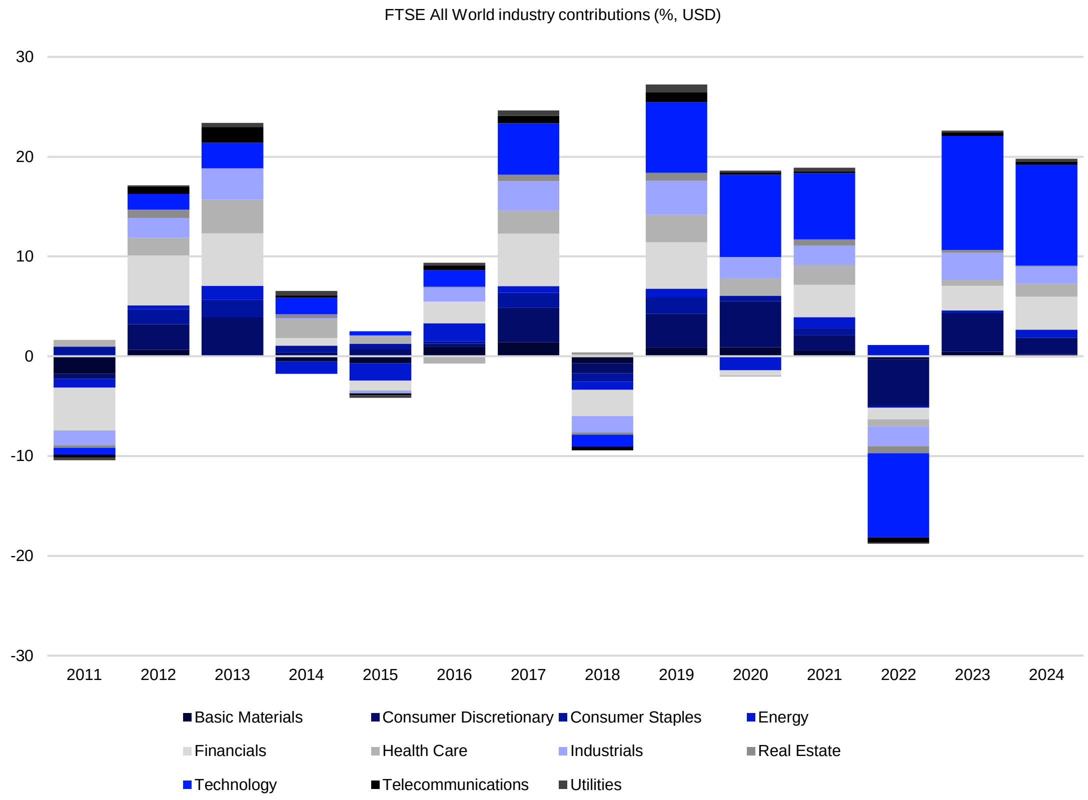


Source: FTSE Russell as at August 31, 2024. Past performance is no guarantee of future results. For professional investors only.

Drilling into the industry contribution of the FTSE All World shows the vast expansion of Technology over the last decade. As Chart 6 shows, Technology started making its marks more visibly in 2017, when the industry contributed about 5.2% of the total performance, i.e., about the same as Financials (5.3%). In 2019, the Technology contribution had grown to 7.1%, while that of Financials had risen to 4.6%. By 2023-24, Technology contributed to some 10-11% of the total return, compared to just about 3% from Financials.

Elsewhere, the return contribution from Consumer Discretionary, also an important industry, has oscillated since 2011 within a range of -4.6% to 4.6%. Unsurprisingly, the strong expansion of the Technology industry and the resilience of the Consumer Discretionary industry has resulted in the outperformance of Growth stocks relative to Value stocks. Since the beginning of 2008, the FTSE All World Growth index, up 361% in US dollar terms, has more than doubled compared to the return of the FTSE All World Value index (108%).

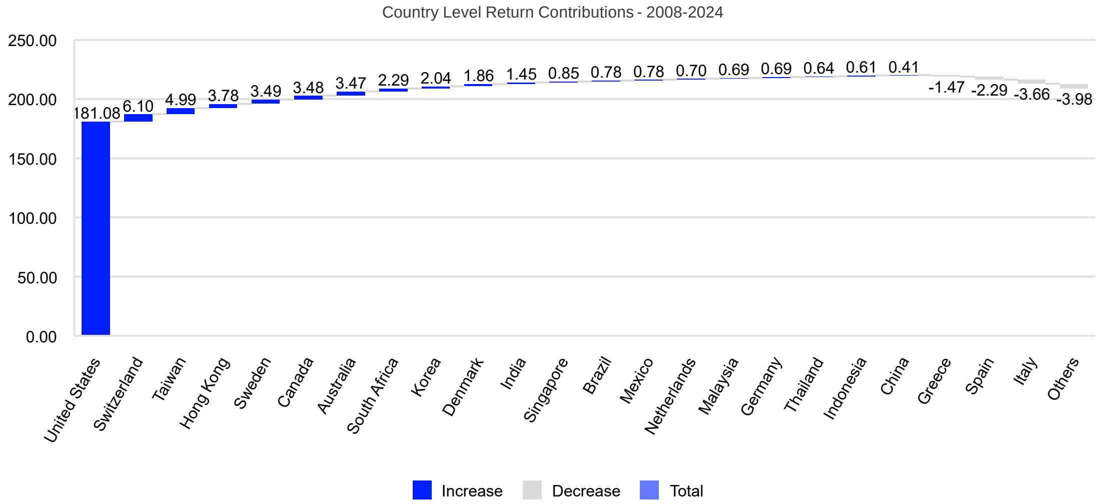
Chart 6. Contribution from the Tech industry has vastly increased since 2019



Source: FTSE Russell as at August 31, 2024. Past performance is no guarantee of future results. For professional investors only.

The return contribution by countries in the FTSE All World between 2008-24 also highlights the dominance of the US equity market. As Chart 7 shows, the US contributed 181% out of a total return contribution of about 216% in US dollar terms during the 16-year period. The next largest contribution came from Switzerland though this single digit contributions paled compared to those in the US. Meanwhile, the contribution from Spain, Greece and Italy, was negative, having suffered sharply during the Great Recession.

Chart 7. The US contribution since GFC dwarfs the return contributions of other nations



Source: FTSE Russell as at August 31, 2024. Past performance is no guarantee of future results. For professional investors only.

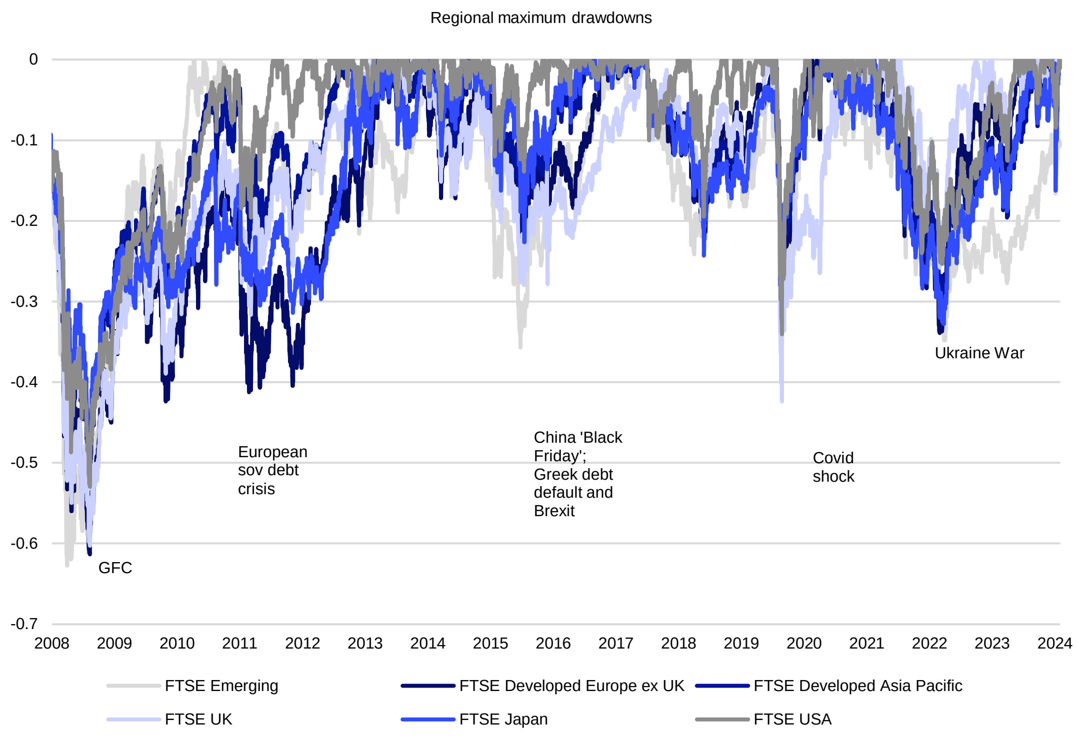
The ripple effects of GFC

Since 2008, there have been several significant global equity sell-offs. As Chart 8 shows, the most notable was during the global financial crisis, which exposed the frailty of the financial market and cracks in the banking sector, with the collapse of Iceland's largest banks, called for central bank intervention and zero policy rates, and led to the Great Recession (2007-2009). The complexities of maintaining a currency union mean that EU countries did not have independent monetary policy as part of their crisis toolkit in the same way that the US did. The crisis was eventually resolved by the financial guarantees of EU member countries, the IMF and the establishment of a financial assistance platform, the European Financial Stability Facility, the precursor to the European Stability Mechanism today. While all regional equity markets sold off during GFC, the EM, European and UK equity markets incurred the largest drawdowns (blue and green lines).

The aftermath of GFC then paved the way to the European sovereign debt crisis in 2011-2012 and the Greek debt default in 2015. While all equity markets declined in 2012, European markets, here represented by the FTSE Developed Europe ex UK, experienced the largest drawdowns. The Brexit vote in 2016 again tested the EU and added to the uncertainty of the region, and the rest of the word, culminating with China's "Black Friday" and major drawdowns from emerging markets.

Then Covid in 2020 shook the equity market once again and resulted in large drawdowns from the US and UK equity markets, though immediate responses from governments and central banks mitigated their severity compared to GFC. The equity market drawdowns during the Ukraine War in 2022, while unnerving for financial markets, were comparatively modest, as Chart 8 shows.

Chart 8. Maximum drawdowns expose the vulnerability of European equity markets since GFC

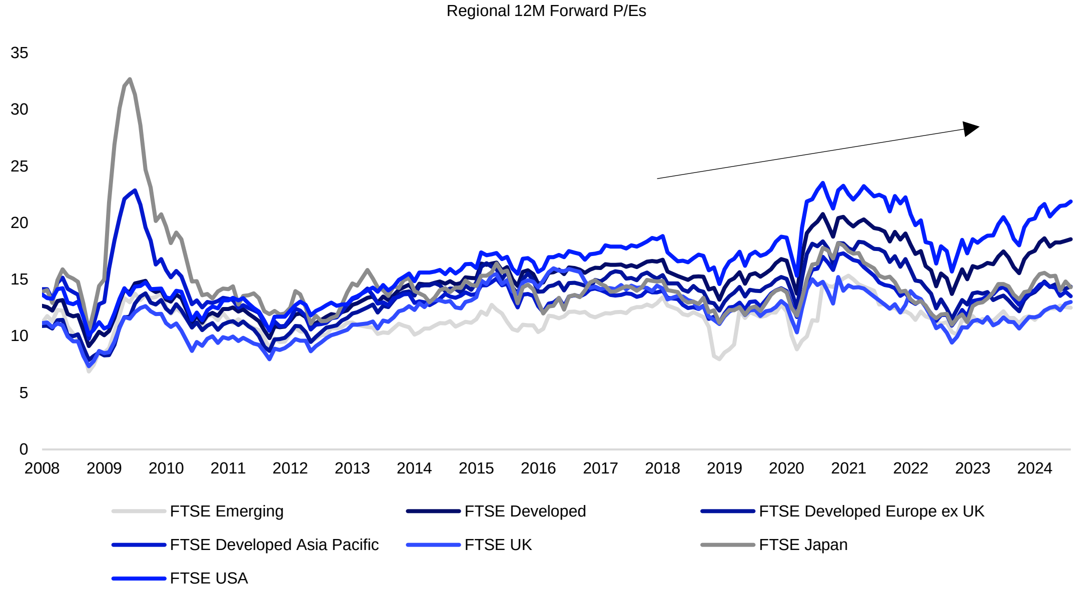


Source: FTSE Russell as at August 31, 2024. Past performance is no guarantee of future results. For professional investors only.

And so, what of valuations?

With such significant market dislocations since GFC, what were their impact on equity market valuations? Chart 9 maps the regional 12-month forward P/Es, with the success of US equities the most evident, as US multiples surpassed those of peers. After reaching a low point of 10.1x in October 2008, from 13.7x in January 2008, US equities rerated sharply to 22x today. The market equity valuations for Europe ex UK also rerated during the period to 14.4x (from 10.9x in 2008). But in other regions, the changes in valuation have been more muted. After reaching a low of 6.9x in October 2008, emerging markets are trading close to 12.5x in August 2024, a modest improvement from the 11.2x in January 2008. Similarly for the UK and Japan, valuation changes have been modest.

Chart 9. US P/E levels reflect the success of Technology



Source: FTSE Russell as at August 31, 2024. Past performance is no guarantee of future results. For professional investors only.

Conclusion

The analysis of the global equity market over the last 16 years shows the profound legacy from the global financial crisis, with its effects still in evidence today. The strengthening of the banking system and financial market regulations post GFC have served financial markets well, but the crisis also exposed the fragility of financial markets, especially in the EU, following the sovereign debt crisis, Greek debt default and the impact of the War in Ukraine. The aftermath of GFC also saw the UK economically weakened by its exit from the EU, which has weighed on its equity market in performance, size and valuation, and decreased its correlation with the FTSE All World today. Valuations in the Asia Pacific region have stayed relatively unchanged in the last 16 years, unlike in Europe, EM and the US, which have increased. But on many measures, the US has been the most resilient equity market and a success story, with its outperformance, Tech dominance and strong rally increasing its concentration in global equity markets.

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