Research Paper

EPRA International Journal of Economic and Business Review-Peer Reviewed Journal
Volume - 11, Issue - 6, June 2023 | e-ISSN: 2347 - 9671| p- ISSN: 2349 – 0187

SJIF Impact Factor (2023): 8.55 || ISI Value: 1.433 || Journal DOI URL: https://doi.org/10.36713/epra2012

THE EFFECT OF RECESSİONS IN THE WORLD ECONOMY ON STOCK EXCHANGES

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ABSTRACT **DOI No: 10.36713/epra13473** **Article DOI: https://doi.org/10.36713/epra13473**

Recession is defined as "recession" in the literal sense. It represents a significant economy-wide decline that lasts more than a few months. In other words, because the growth rate in the country's economy is lower than the population growth rate, it is the per capita income. All macroeconomic indicators; Industrial production, employment, real income, wholesale and retail trade data are also included in this measurement.

Recession periods are the periods in which there are decreases in the stock market in general and there are recessions in share prices. But investors who know the history of the stock market know that this can often be an opportunity. Companies that make good use of these periods will also gain greater profits after the recession. Recession periods may end after two quarters or may last longer. An economy's exit from recession at the end of two quarters is called a V-type exit, and a longer-term exit is called a U-type exit. If the economy has contracted again after exiting a recession, then it is called a W-type recession or a double-dip recession.

While the US economy recovered after the 2020 Covid period recession, it entered the recession period in 2022, where the Russia-Ukraine war was effective. However, the important point here is that with the end of the W-type recessions, the growth path in the economy is long-term and continues for at least 4-5 years. In this study, the effect of recessions on stock markets will be investigated.

KEYWORDS: ***Economıc Recession, Stock Exchange, Econom Ic System.***

İNTRODUCTION

Because a recession often lasts for six months or longer, the experts uses the top two-quarter fall of the country's gross domestic product as a popular definition. This definition was coined by economist Julius Shiskin in 1974. Given what a healthy economy will consistently achieve, Shiskin argued, the volatility seen for the second quarter in a row shows that it actually has serious problems spending money. After this statement, general acceptance was seen. In its broadest definition, recession means a significant and widespread decline in economic activity that can last for months or even years, rising unemployment, declining retail sales and falling industrial production. It is believed that in the growth period just before the recession, which is seen as a part of the economic transformation, uninterrupted imbalances are corrected and paved the way for a new growth to take place. Although stagnation is a known situation in developed economies, it has started to be experienced less and shorter in recent years. According to the International Monetary Fund (IMF), there were 122 recessions in 21 developed economies between 1960 and 2007, bringing the overall duration closer to about 10 percent.

Causes of Recession: More than one factor can cause a recession. These can be caused by many reasons, from a sudden economic shock to out-of-control inflation, but some of them alone or a few of them can cause the economy to shrink. Sudden economic shock: Economic shock is used for unexpected developments

that cause financial loss. For example, the Covid-19 epidemic, which caused the closure of many economies around the world, is one of the closest examples of sudden economic shock.
Over-borrowing: When individuals and companies become over-indebted, they can reach a point where they no longer have any more money to spend at payback time. An increase in the number of companies that default and go bankrupt can take a hit to the economy in general.

Explosion of asset bubbles: When investment decisions are made emotionally, the results may not go as desired. Investors may make stock or real estate purchases with the prediction that the strong course of the economy will continue, causing their prices to inflate. When it explodes, panic selling can push the economy into contraction.
Extremely high inflation: Inflation, the tendency of prices to rise over time It means. In a normal course, inflation is not dangerous, but getting out of control by getting too high can drag the economy into recession.

Excessive deflation: Deflation, which means that prices fall over time, is more dangerous than hyperinflation. When prices fall, companies' incomes decrease, which leads to lower wages, and the pressure on prices increases further and enters a vicious circle.

Technological progress: Technological development and new inventions are factors that strengthen the economy in the long run. However, in the short term, the adaptation process to these developments can cause various problems. In the nineteenth century, the decrease in the need for labor with the industrial revolution caused unemployment to reach its peak. Today, some economists warn that artificial intelligence and robots could have the same effect.

There have been 14 recessions in the world in the last 150 years. 1876 (Contraction: 2.1%).The recession of 1876 began in what is known as the panic of 1873. The recession, which started in Europe and North America due to the deep financial crisis, lasted until 1879.Among the developments that negatively affected the global economy in this period are high inflation in the USA, huge speculative investments, especially in the railways, the transition from the double coin system in Germany and the USA to a single currency system in which gold was used, and the Franco-Prussian War.

1885 (Contraction: 0.02%).The global economy also shrank due to the recession in the United States between 1882 and 1885.This 38-month recession in the US was the third-largest slowdown the country has ever seen. In the USA, as a result of the collapse of Grant and Ward in May 1884, hard sales were seen in the stock markets.

1893 (Contraction: 0.8%).The effects of this deep economic crisis, which started in the USA in 1893, continued until 1897.While the crisis affected almost all sectors of the economy, it also brought some political consequences. For the first time in U.S. history, the unemployment rate has remained above 10 percent for years. In addition, the economy shrank as production stopped in many sectors and there was deflation for several years.

1908 (Contraction: 3%).Panic, which began with the stock market crash in 1907, led to the first financial crisis of the 20th century. This year went down in history as the period when the world economy experienced the greatest contraction since the Great Depression of 1930.The recession had a number of important consequences. Among them, a period of monetary reform was initiated, which led to the establishment of the US Federal Reserve (Fed) system. Economists argue that the crisis of 1907 helped many New York bankers understand the central bank's role and importance for economic balances.

1914 (Contraction: 6.7%).Economists think that the economic crisis experienced during this period was overshadowed by the First World War in the narrative of history.The rise in military tensions between the states in the period leading up to the First World War led to serious sales in global markets, which triggered a financial crisis.Investors, who were worried that the securities in their hands would not receive monetary compensation, started to turn to cash by making heavy sales in the stock and bond markets.The London and US stock exchanges were closed on July 31 following the incoming sales. London five months; The United States remained closed for four months.Professor of Modern History at King's College London. Dr. "For six weeks in August and September, all stock markets around the world were closed except for New Zealand, Tokyo and the Denver Mineral Exchange," said Richard Roberts.

1917-1921 (Contraction: 4.4%).The economic problems created by the First World War caused a recession that lasted for four years.The slowdown that started in 1917, in the last stages of the war, showed its effect for four years.

1930-1932 (Contraction: 17.6%). The Great Depression, the deepest profitable extremity of the 20th century, began in 1929 with the collapse of the New York Stock Exchange. The day of heavy deals that led to the crash in share prices went down in history as Black Thursday. After the stock request crash, numerous companies declared ruin, and hundreds of thousands of people were jobless. The USA and Europe were places where the goods of the fiscal extremity that started were felt deeply.

1938 (Contraction: 0.5%).While the recovery process that started after the Great Depression continued, the global economy started to fall into crisis again in 1937.According to the U.S. Department of Economic Research, this contraction between May 1937 and June 1938 was the third deepest economic contraction the United States has experienced in the 20th century. In the USA, real GDP fell by 10 percent, while unemployment exceeded 20 percent. The decrease in industrial production reached 32 percent. Economists say that the policies implemented by the Fed and the US Treasury Department, as well as the financial tightening and the decrease in liquidity in the market, lie behind the crisis.

1945-1946 (Contraction: 15.4%).The main reason for the recession in this period was the Second World War. The war, in which more than 70 countries participated, caused serious changes in the foundations of the global economy with its effects on Europe and the USA.

1975 (Contraction: 0.8%).The economic revival process began with the recovery of the crisis after the Second World War. However, by the 1970s, the global economy entered a period of stagflation, in which recession and high inflation were observed simultaneously. The trigger for this was the oil crisis of 1973 and the end of the Bretton Woods system with a series of decisions taken by US President Richard Nixon.

1982 (Contraction: 1.3%).After the oil crisis in 1973, the energy crisis in 1979 triggered a new recessionperiod. This extremity affected both developed and developing countries. While countries similar as the USA and Japan surfaced from the extremity fairly beforehand, the goods of the extremity, especially severance in other OECD countries, continued until themid-1980s. It was recorded as the deepest extremity ever seen after the Second World War.

1991(compression0.3). When we came to the 1990s, numerous important changes took place in the world profitable and social order. After the reanimation in the 1980s and 1980s, the drop in the defense expenditures of the countries, the increase in borrowing, the drop in savings and the retardation of the construction sector began to deteriorate the macroeconomic balances. There was a recession in the global frugality, especially in Western countries. The decline in central banks, consumer and business confidence indices in the face of inflation increased the problems.

2009 (Contraction: 2.9%). Low-income people in the USA country, the problems experienced in the repayment of housing loans given at high interest caused the real estate sector to experience problems and collapse. Bankruptcies began to occur in large numbers of companies in the USA. According to the International Monetary Fund (IMF), there was "the most serious economic and financial collapse since the Great Depression". The liquidity problems experienced affected the whole world, especially Europe and the USA. However, the regions most affected by the crisis were the developing countries.

2020 (Expected contraction: 6.2%). World Bank, 5 percent of the global frugality due to the coronavirus epidemic; It also predicts that GDP per capita will drop by6.2 percent.

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LİTARETURE REVİEW

In the literature, many explanations have been made for the definition of the financial crisis. Some of these can be summarized as follows: According to Mishkin (1999): “Financial crisis is the non-linear deterioration resulting from the inability of financial markets with efficient investment opportunities to channel funds effectively due to the worsening of moral hazard and adverse selection problems” (F.S Mishkin, 1999).

Goldstein and Turner define the financial crisis as the sudden, sharp and obvious deterioration of all or most of the financial indicators such as short-term interest rates, asset prices, deterioration of payments and bankruptcies and the bankruptcy of financial institutions, whereas Kindleberger considers financial crises as a key element of the turn at the apex of the conjuncture and defines it as an inevitable consequence of the previous enlargement. (Goldstein, 1999).

According to another definition, it refers to severe fluctuations in prices and/or quantities in any good, service, factor of production or financial market in general beyond an acceptable limit of change. (Erdoğan, 2006).

“Financial crisis is defined as shocks with contagious and pervasive effects that affect the whole country at macro level, firms and individuals at micro level, as a result of some unforeseen and unpredictable developments that occur in the macroeconomic balances of a country's economy”. Although sometimes similar and sometimes different in terms of their emergence, development and ethics, crises are not only a threat to the socio-economic stability of global economies, but also transforming crises into opportunities with successful policy implementations and correct management strategies. However, being able to predict the probabilities of the occurrence of crises with early warning systems (EUS) is an important point for countries to turn crises into opportunities (Ersoy, 2007). Rogalski (1978), one of the main studies on world stock markets, found that there is a one-way Granger causality relationship from price to trading volume (Rogalski, 1978)

Smirlock M. and Starks 1978 found that there is a one-way Granger causality relationship from price to trading volume in their study on the stock market (Smirlock, 1988).

Ashraf, in which exchanges examine the response to the COVID-19 outbreak, 22 Stock market returns for 64 countries in the time period from January 2020 to April 17, 2020,It used daily confirmed COVID-19 case and death rows. In the study, stock markets. Number of confirmed cases exhibiting adverse response in cases in COVID-19 sieges It has been achieved to reduce the stock market returns they receive. (Ashraf, 2020)

Ahmed, Pakistan stock market performance of COVID-19 In his study to determine the effect on the determined that it affects the performance of the index. performance of positive cases and deaths. found the effect to be insignificant (Ahmed, 2020)

Chaouachi and Chaouachi report that the COVID-19 outbreak on the KSA stock market analyzed the effect of ARDL model with daily data between 02 March-20 May 2020. they have done. In addition, the causality relationship between the variables Toda-Yamamoto causality tested by analysis. As a result of the study, only long-term effects of COVID-19 on the stock market found to have a negative impact in the long run. In addition, as a result of the causality test It has been determined that there is a one-way causality from COVID-19 to the stock market (Marou, 2020)

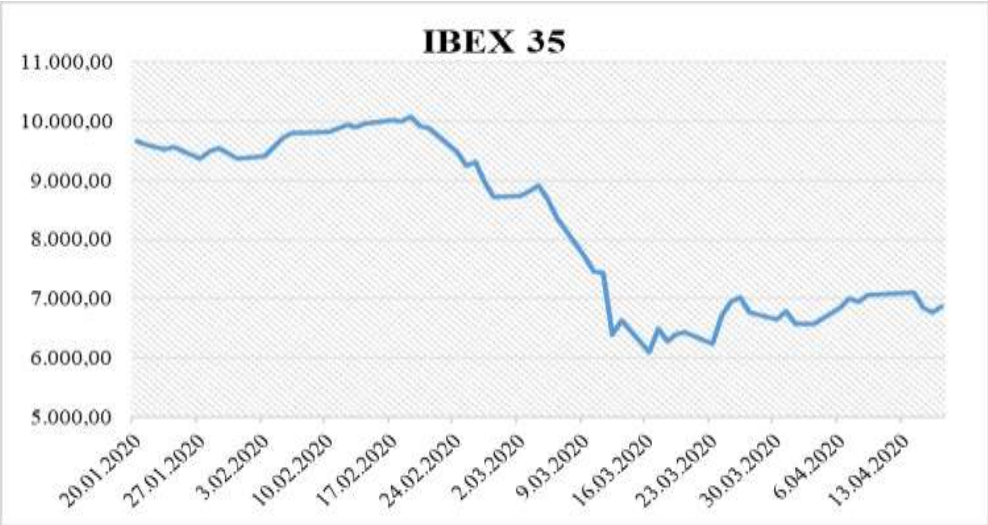
Stock markets have been affected by many crises in the world. In recent years, it has been more affected by the covid-19 epidemic and the Russia-Ukraine war. The Russia-Ukraine war has been a new challenge for the global economy. The war seriously delayed the global recovery after the coronavirus (Covid-19) epidemic, and in this process, concerns about energy and food security reached alarming levels. Battle as prices on a global scale test new highs of the past few decades;

The post-pandemic energy crises exacerbated the negative effects of inflation and commodity price increases. The war has affected not only Ukraine and Russia, but all over the world. deeply affecting the global economy and financial markets.On the financial side, the war changes the global risk perception, increases risk premiums, triggers a shift to safe havens and puts upward pressure on global inflation. Energy prices are at record levels, while precious metals and food prices are rising.

The International Monetary Fund(IMF), the World Bank, the Organization for Economic Cooperation and Development(OECD) and the United Nations Conference on Trade and Development(UNCTAD) have lowered their global growth vaticinations due to the war and posterior warrants. Global affectation is anticipated to increase by a many chance points in 2022 due to the impact of the war, and global growth is anticipated to decline by at least 1 percent. It's estimated that the cost of the war to the global frugality will formerly exceed several trillion bones. According to the computations of transnational institutions, while the Russian frugality is anticipated to contract by 8- 20 in 2022, the total cost of the war to the Ukrainian frugality is estimated to be between 600 billion and 1 trillion bones . As of May 3, 2022, the physical damage of the war alone (such as buildings and infrastructure) is over $92 billion (Bağış, 2022)

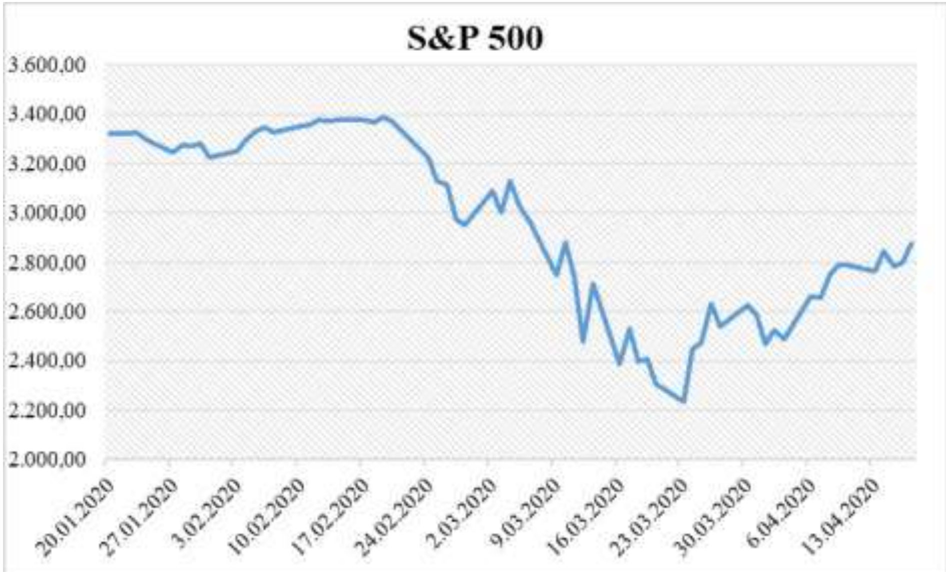
The coronavirus panic has had negative effects on both the world economy and the trade and tourism sectors of countries. In fact, it has been observed that in some countries, there are instant problems related to food shortages. In addition, the uncertainty caused by the pandemic caused sharp declines in the stock markets of countries. On March 12, when there was a 9.5% decrease in S&P500 and Nasdaq indices, IBEX35 lost 14%, FTSEMIB 16.94%, DAX30 12.24%, CAC40 12.28%, FTSE100 10.87%, BIST100 7.26%. This showed that the impact of Covid-19 on financial markets cannot be ignored.

The first of the two important events in which strong decreases occurred in the markets was the spread of the virus in Italy, South Korea and Iran on February 20 and later, and the quarantine announcement in Italy on February 22. The second is the declaration of a pandemic by WHO on March 11, and then the announcement of decisions on travel bans by governments. In the first event, decreases of around 4-5% occurred in global indices, while in the second event, index decreases were between 8-17%. With this decline, most of the world's indices suffered a historic collapse in March, breaking records for the largest recorded daily decline.



Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; decrease was seen in IBEX35 (-14%).

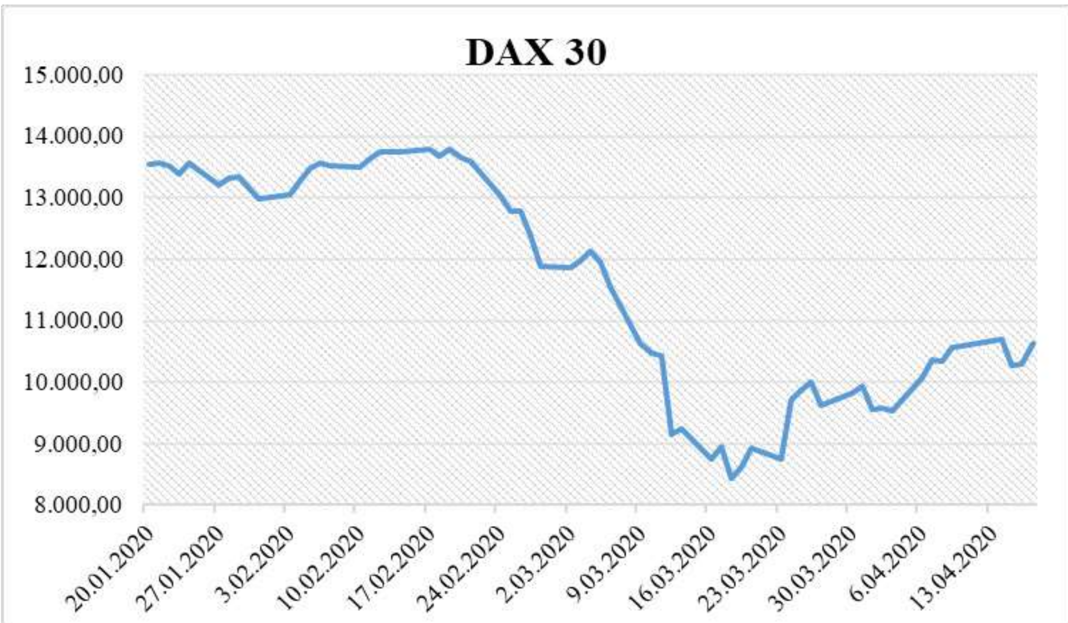


Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; S&P (-12%) was seen

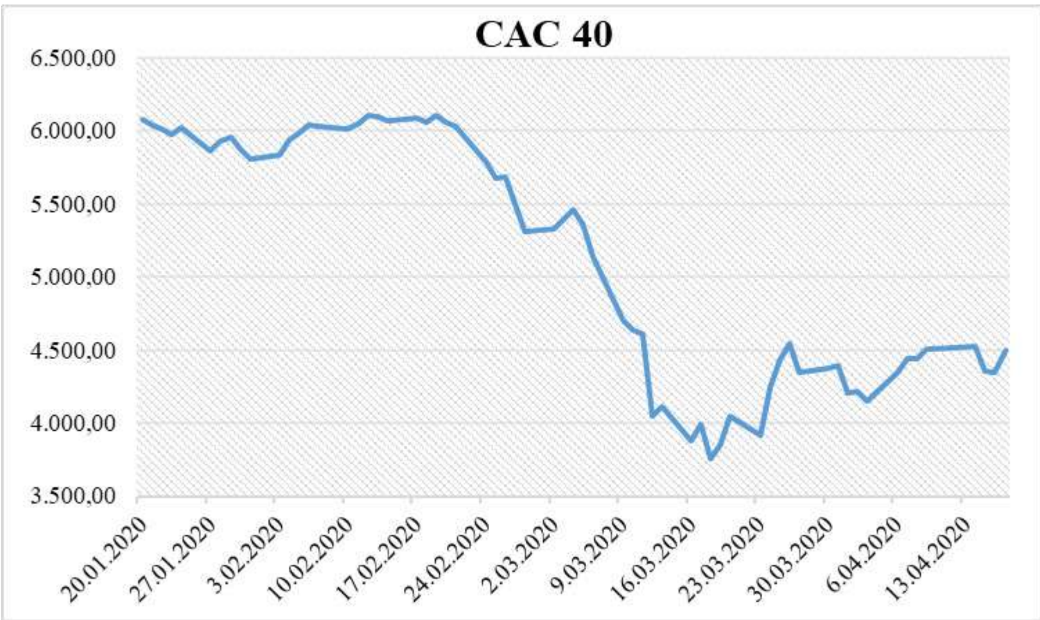
Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; Nasdaq (-12%) was seen.



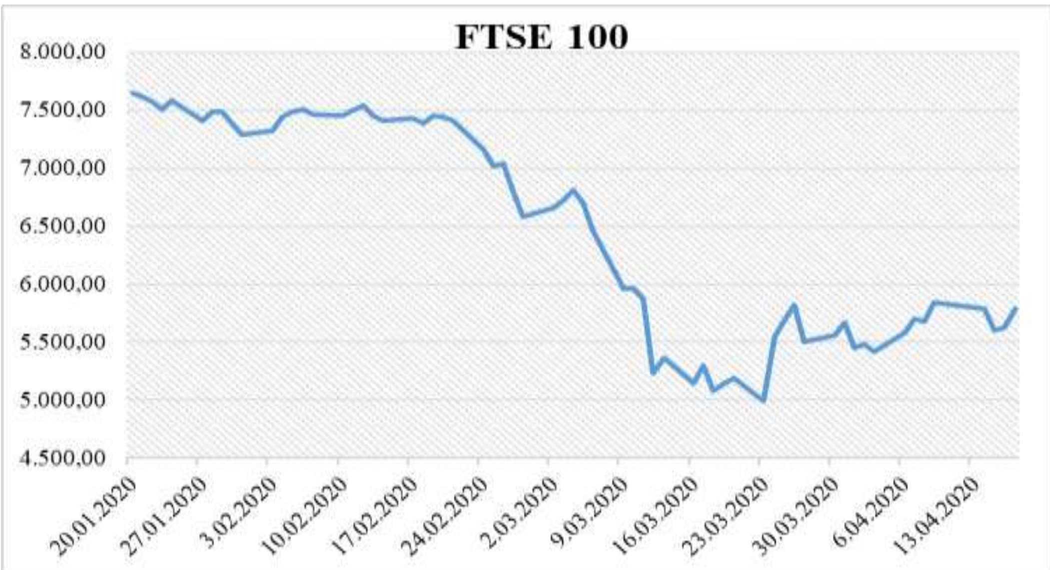
Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; decreased DAX30 (-12%).



Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; decrease in CAC40 (-12%) was observed.



Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; decrease was seen in FTSE100 (-11%).

SJIF Impact Factor: 8.302 || DOI: 10.36713/epra2012 | Volume–11 | Issue-6 | June 2023 | e- ISSN: 2347-9671 | p- ISSN: 2349-0187

Source: A.Soy Temür

As can be seen in the table, looking at the dates with the highest daily decline rates; SSE100 (-8.5%) decreased

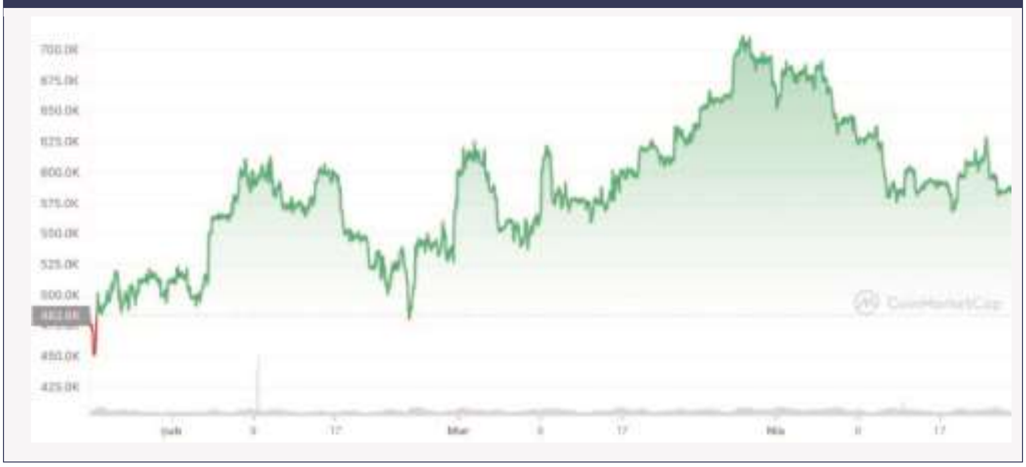
The figures show the graphical distribution of the daily closing values of the indices examined within the scope of the study, dated 20 January-17 April 2020. As can be seen in the charts, the downtrend in all of the indices examined, except for the SSE100, started after February 20.

Charts show that IBEX35 (c) and FTSEMIB (d) hit their lowest level on March 16, DAX30 (e) and CAC40 (f) on March 18 and others on March 24. As of this date, upward movements have started in the stock markets in general.

On the basis of the declines, not knowing how long the epidemic will continue, significant increases in case and death rates, policies implemented by countries, uncertainties regarding treatment and vaccination, etc. There may be reasons such as Investors generally prefer safer investment areas by avoiding risk taking in uncertain environments. In the period until March 24, stock markets have lost more than 30% from their peak levels. (Temür, 2021)

After Russia's invasion of Ukraine, with the 'war pricing' in market pricing, investors left risky assets and headed towards safe havens. However, the Russian stock market lost 49%, the US stock markets 3%, the European stock markets 4% and BIST-100 lost 8% in our country.

BITCOIN FİYATLARI (OCAK-MAYIS 2022, TL)



Source: Coinmarcetcap

Cryptocurrency markets were negatively affected by this process in terms of price movements, but very positively in terms of long-term effects. Cryptocurrencies are an important innovative payment tool. However, with the decreasing risk appetite during the Ukraine crisis period, serious declines were experienced in crypto money prices. Donations to the Ukrainian government via cryptocurrencies also rapidly increased the use of cryptocurrencies in basic needs and defense equipment of the army. (Bağış, 2022)

The Fed's recent rate hike decisions and the flow of money to the safe havens of EMs have made the movements in the already volatile cryptocurrency market more volatile. While Bitcoin regressed to 35 thousand dollars at the very beginning of the war, it fell below 20 thousand dollars in the middle of June 2022. As a result, despite all its attractiveness and high return potential during the war, Bitcoin remained extremely volatile. Therefore, it has also proven that it does not have a stable value like the dollar, euro and reserve currencies. This is a serious blow to the claim of cryptocurrencies as a safe haven. This volatility in the Russia-Ukraine war process makes it necessary to rethink the role of cryptocurrencies as a payment tool or a safe haven that comes to the fore from time to time. (Bağış, 2022)

RESULTS AND EVALUATİONS

Recession periods are the periods in which there are decreases in the stock market in general and there are recessions in share prices. But investors who know the history of the stock market know that this can often be an opportunity. Companies that make good use of these periods will also gain greater profits after the recession.

Although the prices of stocks are affected by many factors, the most important factor is whether the economy is strong or weak. When the economy is strong, people do not hesitate to consume and corporate profits increase, increasing profits naturally lead to an increase in stock prices. The opposite of this situation is also true.

After the stock markets experience a great rise and success on an index basis, income and employment begin to decline for some reason. By the recession stage of the business cycle, companies' inflows and employment drop; Stock prices fall as companies struggle to maintain profitability. In such a script, it's natural for investors to worry about falling stock prices and the negative outlook on their portfolios. 1929 Economic Depression The worst illustration to date is the stock request crash of 1929, which passed in four trading days. The depression that began on October 24, known as Black Thursday, lasted until Black Tuesday.

During these four days, the stock request lost all its earnings for the entire time. Black Monday in 1987 was the loftiest one- day chance when the Dow Jones fell20.7. recorded the loss. Other stock request crashes in the history were also significant, but they didn't incontinently beget recessions. The tech mess of 2000 began when tech exponents inaptly prognosticated that computer software wouldn't be suitable to tell the difference between 1999 and 2000. numerous high-tech companies have declared ruin. On September 15, 2008, the Dow Jones dropped 500 points, the worst drop since the end of the 2001 recession.US Treasury Secretary Henry Paulson could not save Lehman Brothers, which plunged the markets into a crisis of confidence.

The 2020 stock market crash began on March 9. The Dow Jones Industrial Average recorded three record point losses in one week, with the Dow Jones hitting a record high of 29,551.42 on February 12 before the 2020 crash. From this peak to March 16 low, the Dow Jones Industrial Average lost 9,362.90 points (31.7%), surpassing the 20% drop that marked the beginning of a bear market.

Companies that produce vaccines, drugs and hygiene products (that is, that are expected to help eliminate the cause of recession) or meet the indispensable needs of people such as food, as in the pandemic period, despite the recession. companies that are expected to diverge positively or decline may make small surprises.

In the long run, most stock markets tend to grow with each peak reaching a higher level than the previous one. And all global stock markets could be affected. Of course, very few investors should not panic about foresight or big losses that could see decades into the future.

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