The Stock Market in the Wake of Sandy

One week after Hurricane Sandy slammed into the East Coast of the United States, the nation is still tallying -- and coming to grips with -- the unspeakable devastation left in its wake.

"The market's performance following major hurricanes has been uneven, as equities are more likely to be driven by wider-reaching global events than by localized natural disasters." -- Sam Stovall, Chief Equity Strategist, S&P Capital IQ.

More than 140 lives lost, as many as 40,000 New Yorkers left temporarily homeless, nearly one million homes and businesses without power in New Jersey (as of Saturday, November 3), and hundreds of thousands still without power in New York City, its northern suburbs, and Long Island.[1] Aside from the human toll, economic damages inflicted by Hurricane Sandy could reach $50 billion, which would make it one of the most expensive and devastating storms in U.S. history. In fact, some economists have warned that Sandy could trim a half percentage point off the nation's economic growth in the current quarter.[2]

Even the stock market shuttered its doors last Monday and Tuesday as Sandy struck -- the first time the New York Stock Exchange had closed for two consecutive days due to weather since the Blizzard of 1888. Upon reopening on Wednesday, October 31, investors were nervous that pent-up demand might lead to volatile trading, but stock prices barely budged at the opening and stayed within a tight range throughout the day. The abbreviated week of trading ended on a down note on Friday, November 2, with the Dow Jones Industrial Average, the Nasdaq, and the S&P 500 all receding sharply from the previous day's gains.

Bigger Picture View

Immediate turmoil aside, what effect might Hurricane Sandy have on stock performance over the longer term? According to S&P Capital IQ's Chief Equity Strategist, Sam Stovall, "History says that hurricanes typically don't trigger market declines. Individually, the market's performance following major hurricanes has been uneven, as equities are more likely to be driven by wider-reaching global events than by localized natural disasters."[3]

Stock Market Reaction to the Costliest Hurricanes

				S&P 500 % Change		
Rank	**Name**	**Date Formed**	**Cost ($ Bil.)**	**1 Month**	**3 Months**	**6 Months**
1	Katrina	8/23/2005	108.0	0%	4%	6%
2	Andrew	8/16/1992	45.6	0%	0%	3%
3	Ike	8/30/2008	37.6	-9%	-30%	-43%
4	Wilma	10/15/2005	29.2	0%	4%	6%
5	Irene	8/21/2011	19.0	6%	6%	21%
6	Charley	8/9/2004	18.6	5%	9%	12%
7	Ivan	9/2/2004	18.1	5%	9%	12%
8	Agnes	6/14/1972	15.2	-1%	0%	9%
9	Hugo	9/9/1989	14.1	3%	0%	-3%
10	Rita	9/17/2005	10.5	0%	0%	3%
11	Frances	8/24/2004	10.4	5%	9%	12%
12	Gilbert	9/8/1988	10.2	5%	4%	11%
13	Betsy	8/27/1965	9.4	4%	6%	5%
Source: S&P Capital IQ.			**Median:**	**3.2%**	**3.9%**	**5.8%**

The above table looks at how stocks performed in the wake of the past 13 most destructive hurricanes as measured by cost since 1965. On average, the S&P 500 gained between 3.2% and 5.8% in the months that followed the deadliest storms. Notably five of the costliest storms in the past decade -- Katrina, Wilma, Irene, Charley, and Ivan -- gave stocks their biggest short-term bump. Of course, there is no guarantee that history will repeat itself.

More Challenges Ahead

No doubt November 2012 will be a month to remember, and investors have every reason to be on edge. More new challenges -- and uncertainty -- lie in the weeks ahead as the newly re-elected president and Congress turn their attention to the contentious business of dealing with the nation's outsized debt and the fast-approaching fiscal cliff.

[1]Source: *The New York Times*, Times Topics, "Hurricanes and Tropical Storms (Hurricane Sandy)" updated November 5, 2012.

[2]Source: *The New York Times*, "Estimate of Economic Losses Now Up to $50 Billion," November 1, 2012.

[3]Source: S&P Capital IQ, Global Equity Research, "Canes & Gains: Earnings, Elections and Sandy Form a Perfect Storm of Investor Concern," October 29, 2012.