Views from the FloorToday’s Economy Mirrors Eve of 1997 Asian Financial Crisis

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Is the current market turbulence echoing 1997 and 2013?

It’s back to school and we have returned to our desks only to find the same unresolved tensions we left behind. No shiny new pencil cases. Instead, geopolitical and macroeconomic risks continue to rise, driving up global bond yields while equity markets still sit near record highs, propped up by tech stocks masking weakness elsewhere. And the same underlying question of when it’s all going to unravel.

While unfortunately we don’t have a crystal ball, it might help to take a look back at history. Our proprietary macro timing model MacroScope which examines past market regimes and looks for patterns that can help us read present conditions shows the current landscape bears the closest resemblance to May 1997. That was five weeks before Thailand devalued its currency and triggered the Asian financial crisis.

February 2013, three months before the Fed taper tantrum, comes second. While today’s conditions are not an exact replica of those periods, what they share with September 2026 is that the prevailing risks were widely known but not yet disruptive, allowing investors to largely look past them.

The emerging stress in Asia was initially treated as a regional and containable problem. The US economy was enjoying a 'Goldilocks' period with a rare combination of low unemployment, contained inflation and improving productivity. That crisis did not reach Wall Street until late October, when the Dow plunged 7.18% and circuit breakers halted trading for the first time.

The S&P 500 still ended 1997 up 31%, but the initial disruption triggered a wider global systematic shock which endured throughout 1998.[1]

The 2013 environment makes a similar point from a different angle. Everyone knew the Federal Reserve’s money printer would eventually be switched off, yet markets climbed anyway. The central bank had spent years buying bonds, to hold borrowing costs down and nudge investors out of safe assets and into risky ones. Growth was weak and spending cuts were about to bite, meaning when the reckoning arrived in May, no one should have really been surprised.

So, how useful is that history lesson for today? Our current stance leans toward cautious pessimism rather than bearishness. None of the obvious candidates, whether the trillions going into artificial intelligence, the war in Iran or the state of US public finances, looks likely on its own to trigger an imminent break.

A fiscally constrained US government, a Fed we believe is on the verge of raising rates, and valuations still priced for a fairly benign outcome all combine to leave the market with very little margin for error. These factors are intertwined and generally reinforce each other, suggesting it would not take much of a shock to expose the underlying fragility.

It might offer some comfort that the model cites August 2011, when the US lost its triple-A credit rating and the Eurozone debt crisis threatened the single currency bloc, as the least similar period to our current environment.

At the time of writing, Wall Street's fear gauge, the VIX, held close to its year-low of 14.2 on 14 August, marking its lowest point this year. VIX futures expiring in October had nudged up to 19 for October and 19.7 for November, anticipating volatility in the run up to the US mid-term elections. However, that's still a good clip from the psychological threshold of 30 indicating severe market stress.

On 9 July, the gap between the volatility investors expected from the index and the volatility they expected from the companies inside it was the widest on record, and average correlation between S&P members is in the bottom 1% of readings since 2005. Shares are moving sharply in opposite directions, which cancels out at index level.

Source: Man Numeric, MSCI Barra as at 26 August 2026.

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MacroScope's style factor positioning remains dominant on Momentum and favouring shares that have already been going up, but we have also noted a nudge up for Quality-oriented factors, covering investment quality, earnings quality and profitability.

The model is also short the most volatile shares and the hardest ones to sell quickly, avoiding the exposures that tend to hurt most when a crowded trade unwinds. By industry it favours fertilisers, biotechnology and oil exploration, while turning most negative on mortgage lenders, semiconductor equipment makers and chip firms.

Source: Man Numeric, MSCI Barra as at 26 August 2026.

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This brings us to the ultimate question of timing.

Only a fortune teller can predict exactly when the market will price in reality. As both 1997 and 2013 demonstrated, these dynamics can rumble on for quite some time. History shows that this specific brand of complacency can be the seedbed for major disruption once sentiment eventually turns. All data Bloomberg, unless otherwise stated.

Author: Valerie Xiang, a Portfolio Manager at Man Numeric. [1] Past performance is not indicative of future results

For further clarification on the terms which appear here, please visit our Glossary page.
