# Could a Rally Be on the Horizon for the TSX?

## Description

It's been tough to be a Canadian investor this year. The **S&P/TSX Composite Index** (TSX:^OSPTX) has been one of the worst performers out there, and foreign investors have been losing interest in Canadian securities of late. It's really been a forgettable first half of the year as uncertainty over oil prices, a frothy housing market, and NAFTA renegotiations have been preventing a meaningful rally like the one our neighbours south of the border have been enjoying this year.



The **S&P 500** has been surging this year, despite numerous concerns ranging from the threat of nuclear war to fears that Trump's pro-business agenda could be in jeopardy. American stocks have still found a way to rally higher, and many pundits have been warning about stretched valuations. Here in Canada, there's plenty of value to be had with many stocks trading at significant discounts to their intrinsic value.

While others are fearful over the cloud of uncertainty over the Canadian markets, it may be time to be greedy by picking up shares of attractively valued stocks of wonderful businesses that may be well positioned to soar as the TSX finds its legs.

Stéfane Marion, chief economist and strategist at **National Bank of Canada**, upped his allocation in Canadian equities recently as he believes the global economy will eventually send beaten-up Canadian stocks higher. Mr. Marion pointed out that the TSX Composite is trading at a "significant discount" to the S&P 500 with the gap between price-to-earnings multiples being the largest it's been since 2004.

Sure, there's still a lot of uncertainty, but many businesses will be minimally impacted from feared negative outcomes, and it's these businesses that you should be picking up while they're cheap.

**Potash Corporation of Saskatchewan** (TSX:POT)(NYSE:POT) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) are two ridiculously cheap stocks that could enjoy a nice rally along with the TSX going forward.

**Potash Corp.**

Potash Corp. trades at a 1.7 price-to-book multiple and a 3.3 price-to-sales multiple, both of which are lower than the company's five-year historical average multiples of three and 3.8, respectively.

Potash, the commodity, is trading near historic lows and although farmer incomes are likely to remain modest over the medium term, I believe long-term investors can pick up shares at a gigantic discount to the intrinsic value. Potash is still a very necessary commodity, and there are many reasons to believe a gradual rebound could be in the cards over the next few years.

### CIBC

If the general public is afraid of the overheated Canadian housing market, then they're probably petrified by CIBC with its large portfolio of mortgages and its domestic overexposure.

Shares have always traded at a discount to its Canadian banking peers, but I think the recent sell-off has been way overdone because of unwarranted fears.

Shares currently trade at a 8.9 price-to-earnings multiple and a 1.9 price-to-book multiple, both of which are lower than the company's five-year historical average multiples of 10.8 and 2.1, respectively.

Sure, there's a greater degree of risk with CIBC compared to its Big Five peers, but I believe the gigantic discount makes the additional risk completely worth it. A little more risk for a lot more reward sounds like a good deal to me.



CIBC has a long-term plan, and it's making moves to diversify away from Canada to become a bank with a more robust earnings stream. If you think longer term, it's very likely that CIBC won't be trading with a single-digit price-to-earnings multiple in a few years from now once its U.S. banking segment is up and running according to plan. But until then, collect the fat 4.75% yield while you wait for shares to bounce back after a tough year.

### Bottom line

The TSX Composite has been a huge laggard so far this year, but that's a good thing for stock pickers. It's a stock pickers paradise! So, now is the time to buy severely undervalued stocks before they break out once the global economy drives markets higher, while Canadian fears of uncertainty gradually start to fade.

Stay smart. Stay hungry. Stay Foolish.

### CATEGORY

1. Investing

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1. Editor's Choice

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**Date**
2025/09/13
**Date Created**
2017/08/23
**Author**
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