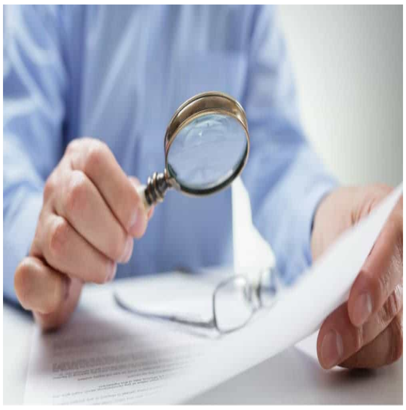

The TSX Index Shed 127 Points: Should You Worry?

Description

It's been a wild October for stocks. And this week it got even wilder as a TSX selloff renewed worries about a major market correction. The **S&P/TSX Composite Index** (TSX:^OSPTX) lost 127 points, or 0.83% of its value, by the end of trading on Tuesday. The slide was driven by weakness in cannabis stocks like **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB), which have been trending downward since legalization hit last week. This is the second major selloff affecting both the NYSE and the TSX this month. Earlier in October, both indices lost much of their value, but had recovered by late last week.

The persistent weakness of stocks this October has some investors worrying that we're in the middle of a major correction, or even on the precipice of a recession. While it's too early to call now, there are definitely some concerning signs. We can start by looking at a little market history

The history of bulls and bears

Since 1926, the average **S&P 500** bull run has lasted 9.1 years, while the average bear market has lasted 1.4 years. By historical standards, therefore, we are approaching the end of a typical bull market: the DOW and the S&P 500 have been rising since approximately 2009. The same holds true for the TSX, which has been mostly on an upward trajectory since hitting a low of 7,591 on March 6, 2009. Granted, there *have* been some corrections since that date. But overall, we've been trending upward for about nine and a half years.

The fact that we're approaching the average life expectancy for a bull run does not mean this one will end soon. However, on August 22, CNN reported that (American) indexes were on their longest winning streak *in history,* with 3,453 days of uninterrupted gains. And there have been even more gains since then. If CNN's claim is correct, then a bear market–if not a recession–is long overdue. And there is one more reason to think that that may be the case.

Rising interest rates

Interest rates have a tendency to correlate with economic trends. Specifically, they tend to rise before a recession, and fall during it. As economic growth progresses, central bankers get nervous about inflation brought about by an overheating labour market, and raise interest rates in response. As a consequence, loans become more costly, fewer people borrow, and spending decreases. This has the natural effect of lowering corporate revenues, employment, house prices and more.

What does all this have to do with the TSX Index?

Recently, it was announced that the Bank of Canada was considering raising the benchmark interest rate to 1.75% from 1.5%. This would be the sixth interest rate hike since April 2017, when the benchmark sat at just 0.5%. With the interest rate more than tripling in just over a year, there may be some cause for alarm. My advice? If you want to stay out of trouble, consider some recession-proof picks with a proven track record of weathering economic storms.

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Date
2025/08/27
Date Created
2018/10/24
Author
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