Why the TSX Surged in the 1st Half of January

### Description

Canadian stocks got off to a great start in 2019. After kicking off the year at 14,347 points, the S&P/TSX Composite Index rose to 15,111 points by January 16, racking up a healthy 5% gain. The rally continued until this past Monday, and media outlets dubbed the period from the 3rd to the 21st as the "longest TSX winning streak since 2014." On Tuesday, the rally ended, but the TSX remains well ahead of where it was at the start of the year.



At first glance, this looks like good news. There was an atmosphere of doom and gloom late last year, as stocks fell 15% from their 12-month highs and 11.6% for the full year. Naturally, investors are collectively breathing a sigh of relief as the market recovers. But we may not be out of the woods yet. Stocks still haven't approached their 2018 highs, so it's possible that what we're seeing now is just a short break in a long march downward.

For investors, it pays to know whether a market move is a blip on the screen or the start of a long-term trend. To gauge which is the case with the TSX's recent rally, we need to understand what really happened in the first place.

## The correction effect

One of the most plausible explanations for the early January TSX rally is that we were only in a correction — not a bear market. A correction is a temporary 10% or more decline in the price of a security or index after a bull run. The TSX's late-2018 slide definitely fits the bill, as the index fell more than 10%.

However, it's still too early to tell whether that was a mere correction or the start of a bear market. If stocks begin to slide again, and the total losses reach 20% or more, then we're in bear market territory. Assuming that doesn't happen, then the recent bull run was simply the expected rebound after a small correction. But we'll have to wait and see.

## Earnings still strong in many sectors

Another possible reason for the recent bull run lies with fundamentals. Despite all the losses observed last year, many TSX companies are still posting strong earnings. In fact, earnings are chugging along just fine in sectors as diverse as banking, railroads, utilities, and tech. Clothing stocks like **Lululemon Athletica** (NASDAQ:LULU) have been doing particularly well. In its most recent quarter, Lululemon grew earnings at 60% year over year, with a 27% return on equity. And it's not alone in that club, either: **Shopify** and **Canada Goose** are two other Canadian stocks with high double-digit growth, not to mention dozens of others with growth rates around 10%.

## Cannabis stocks rebound

A final factor that may explain the TSX's recent rally is the miraculous rebound in cannabis stocks. After getting steamrolled in late 2018, these stocks started rising again this month, after **Aphria** (TSX:APHA)(NYSE:APHA) released a moderately strong quarterly report. Although Aphria's earnings missed analyst expectations, the growth observed was still phenomenal, hitting triple digits in both revenue and net income. It was a strong sign that despite all the shortages it brought, legalization has led to increased sales for cannabis producers, and that more of them will post healthy results when they release their upcoming quarterly reports.



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