Market Crash 2020: Will March Mayhem Haunt Canadian Investors?

Description

The last seven trading sessions have wiped out trillions in market value for investors around the globe. All the major indexes have corrected significantly from record highs driven by Coronavirus fears. The global epidemic has now spread to over 50 countries and resulted in at least 3,000 deaths.

China has been the most affected by the virus followed by South Korea, Italy, Japan, and Iran. Investors and economists are worried that global demand will be less than subdued this year, which will hugely impact company revenue and earnings in 2020.

The Dow Jones Industrial Average is trading 14% below record highs, while the S&P 500 is also down close to 13% since February 19, 2020. Tech giants such as **Apple** (NASDAQ:AAPL) have slipped further.

Apple stock is down almost 17% after the company sent out a press release last month addressing the current conditions in China. Apple stated that it would not meet revenue guidance provided for the March quarter.

According to company management, the worldwide iPhone supply will be temporarily constrained though the company's manufacturing partners are located outside the Hubei province (the epicentre of the virus outbreak). The manufacturing partners, as expected, are ramping up slowly, leading to supply shortages.

Demand for iPhone and other Apple products within China has also been impacted. Several partner stores in China have been closed, while those still operating are doing so with reduced hours and are experiencing low customer traffic.

Apple is not the only company to lower its guidance for the March quarter. Several other tech companies, including **Microsoft** and **PayPal**, have also confirmed that Coronavirus will impact company revenue in the short term.

Tech companies have significant exposure to China and stocks might move lower if the virus outbreak translates to a full-blown pandemic.

The sell-off has not been as brutal for Canadians. The S&P/TSX 60 Index ETF is down 9.5% from record highs. This ETF consists of the largest and most liquid Canadian stocks. Shares of **Royal Bank of Canada**, **Toronto Dominion**, **Enbridge**, **Bank of Nova Scotia**, and **Canadian Railway** are down 9%, 11%, 13%, 8.5%, and 11% below record highs.

Will the sell-off continue?

The Dow Jones and most other indices are in correction mode. According to a CNBC report, the average correction results in a 13% decline (based on historical data) with a recovery period of about four months. Any decline of over 10% is classified as a market correction.

In case markets fall over 20%, they enter the bear market territory. The average decline in the 12 bear markets since World War II stands at 32.5% according to the report. CNBC further states that bear markets last an average of 14.5 months and takes about two years on average to recover.

Several economists were predicting a recession to hit global markets in 2020, and the coronavirus might have very well accelerated this scenario. Manufacturing data from the United States, Europe, and China has been less than encouraging over the last six months. The PMI data for the most major economies have been below 50, which indicates an economic contraction.

The U.S. yield curve inverted in August 2019, and this has been a strong indicator of an economic downturn for the last six decades. As investors are shifting investments to safer asset classes like bonds, the treasury yields are trading at record lows. The 10-year yield has fallen close to 30 basis points in the last week and now stands at 1.156%. Yields and bond prices move in opposition to each other.

Will the Federal Reserve cut rates further to stimulate demand? This move seems very likely which will give investors some breathing space. In a recently released statement, Fed Chairman Jerome Powell stated, "The fundamentals of the U.S. economy remain strong."

He added, "However, the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy."

The verdict

Global uncertainty will continue to impact equity markets. The impact of Coronavirus coupled with recession fears, lofty valuations and subdued demand can drive investor wealth lower in the next few months.

Industries such as tech (with exposure to China and Asian markets), energy, aviation, and retail are likely to be hit most. While Canadian indexes will not be as severely impacted, a sustained global market sell-off can still wipe out significant investor wealth in the short term.

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