2020 Stock Market Crash: Worse Times Ahead for Stocks

Description

After the 2020 stock market crash, stocks are whipsawing wildly on a mix of good and bad news. Investors are reacting strongly to any positive or negative developments. Even after the latest rally, which saw the headline **Dow Jones Industrial Average** gain 1,000 points in a single session, stocks are still substantially lower than at the start of 2020. The Dow has lost 23% for the year to date while the **S&P/TSX Composite Index** has shed 21%.

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The recent rally can be attributed to Washington's announcement of a US$2 trillion stimulus package to battle the economic impact of the coronavirus.

Some of the biggest beneficiaries will be among the sectors most harshly affected by the coronavirus, includes airline, retail, manufacturing and entertainment stocks. While the latest announcement has breathed life into beaten down stocks and sparked a renewed sense of optimism**,** it may not be enough in the short term.

Poor short-term outlook

Based upon the experience of Italy and Spain, there is likely to be a surge in U.S. coronavirus cases and related fatalities. When that occurs, it will spook an already extremely nervous Wall Street**,** causing stocks to tumble further.

Even recent stimulus measures won't be enough to prevent further falls and a prolonged bear market. Economic stimulus including rate cuts announced by central banks earlier this month failed to prevent the Dow from suffering its worst one-day fall ever.

Canadian investors should brace for further weakness. The measures being implemented across the globe to contain the coronavirus and slow its spread are weighing heavily on the economy. Social distancing, mandated quarantine periods and travel bans have caused consumption to decline sharply.

That in turn is weighing on business confidence and earnings. While cheaper credit, because of lower rates, typically sparks higher consumption and business activity, this won't occur due to the banning of most public activities and implementation of curfews.

The latest oil price collapse, which sees the Brent benchmark trading at around US$30 per barrel, will do little to invigorate the economy for those same reasons.

Some pundits are even claiming that despite the latest stimulus led rally**,** the stock market has yet to bottom and will fall a further 10%. The economic fallout from the pandemic will be severe and could be worse than the Great Recession of 2008 just over a decade ago.

There are claims by some economists and financial institutions that the U.S. economy has already fallen into recession. If the U.S., the world's largest economy, slows countries around the globe will follow.

That global recession will be deep, sparking a bear market that could be longer than the one which emerged during the Great Depression and ran for around 17 months.

What investors should do

Despite the 2020 stock market crash and poor short-term outlook for stocks, this is not the time to panic. The key is to ignore the sensationalist headlines.

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Instead, focus on your reasons for investing, stick to your plans and stay invested for the long haul. While the short-term outlook for stocks is poor, the economy will certainly return to growth.

By the end of 2019, Canada's gross domestic product (GDP) had expanded by 28% compared to 2008. The **S&P/TSX Composite** benefited from that economic growth**,** gaining a whopping 62% since the end of 2008 even after the latest rout.

Some of Canada's top dividend growth stocks have performed even better. The largest mortgage lender, **Royal Bank of Canada** (TSX:RY)(NYSE:RY). After including dividends, it delivered a stunning 253% or a compound annual growth rate (CAGR) of just under 11%.

Canada's largest bank will bounce back from the latest market downturn. Royal Bank possesses solid fundamentals including a high credit quality evident from its conservative gross impaired loans ratio of 0.45%. It is also adequately capitalized with a common equity tier one capital ratio of 12%.

Royal Bank's focus on implementing efficiencies, including expanding its digital footprint, will lower costs and boost profitability — an important strategy to be undertaking in the current difficult operating environment.

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