



## The Market Crash Has Only Begun

### Description

The market crash caught everyone by surprise. Well, not everyone.

Hedge fund manager Bill Ackman recently made \$2.6 billion with a bet that the coronavirus would eventually force a market crash. To generate that return, Ackman invested just \$27 million in capital.

According to *The Guardian*, "The profit, if confirmed, would rank as one of the most profitable trades ever disclosed by a hedge fund."

Last week, markets showed [signs of strength](#), rebounding strongly. But for Canada, the market crash has just begun.

### It's not just the coronavirus

There's reason to believe that the impact of the coronavirus is still in the early stages. The virus moves exponentially, and proactive measures in North America pale in comparison to what successful nations like China and South Korea have used.

Consider the state of Ohio, which borders Lake Erie. At last count, there were fewer than 1,000 cases. But government officials anticipate 6,000 to 8,000 new cases *per day* by the end of next month. Exponential curves can be difficult to understand, but in a crisis, they can turn ugly fast.

Governments are working hard to pump the market with liquidity and provide direct assistance to those affected, but it's clear that we're weeks or even months from a true peak.

But let's assume that the coronavirus threat clears up significantly faster than expected. And any after-effects, such as cautious consumer spending, are also short-lived. Still, Canada faces an uphill battle thanks to the oil crisis.

At the start of 2020, oil prices were consistently above US\$50 per barrel, occasionally surpassing the US\$60 mark. In March, prices fell off a cliff. Today, they're hovering just above US\$20 per barrel, the

lowest price since 1998. The most recent period before that was 1973. This is truly is rare event.

The plunge was caused by a spat between two major oil producers: Saudi Arabia and Russia.

According to *The New York Times*, “Moscow refused to accept production cuts to offset the effect of the coronavirus outbreak. Now Saudi Arabia is trying an alternative: inflicting pain.”

Saudi Arabia has slashed pricing and ramped production significantly to punish Russia’s dissent. It wants to prove that its oil reserves, which generate the cheapest production in the world, are still a force to be reckoned with. As we’ll see, this will crush the Canadian economy.

## The market crash will continue

The **S&P/TSX Composite Index** took a dive in response to both coronavirus and oil fears, but the true market crash is yet to come.

According to Natural Resources Canada, a government ministry, Canada is the sixth-largest energy producer, the fifth-largest net exporter, and the eighth-largest consumer of energy in the world. Canada’s energy sector directly employs more than 260,000 people and indirectly supports over 550,000 jobs. Annual government revenues from the sector regularly bring in more than \$10 billion, an unsurprising figure considering the sector represents 11% of GDP.

It’s not difficult to connect the dots here. Many of Canada’s largest energy projects break even at US\$45-per-barrel oil prices. Even some low-cost mega-projects still require oil above US\$35 to remain economically viable.

Today, we’re not even close to those levels, meaning these projects are racking up *huge* losses on a daily basis. There may not be light at the end of the tunnel for a long time.

For years, Saudi Arabia and other oil-rich countries have ceded market share to growing Canadian output and low-cost shale in the United States. Many analysts believe that the current pricing war could continue until scores of North American production permanently exit the market. Canadian producers are holding on as long as they can, but they can’t sustain losses forever. Saudi Arabia knows this.

In the coming months, we should see massive layoffs in Canada’s energy sector. That will have pervasive effects on every part of the economy, not just industries that directly rely on energy production and activity. This will pressure government revenues at a time when massive fiscal stimulus is required for the coronavirus response.

The market crash has already punished investors. Make sure your portfolio is prepared for more pain.

### CATEGORY

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