



## Is the Stock Market Crash Over?

### Description

The stock market has rallied in recent days. The **S&P/TSX Composite Index** is up 24% since March 23. That's technically called a "bull market." So, are we, in fact, in another long-term rally? Is the historic stock market crash of 2020 over?

Here's a closer look.

### Lingering issues

Although the stock market seems to have recovered, the economy hasn't. The vast majority of the world's population is currently on lock down. Every aspect of the global economy, besides essential services, have been paused. This is unprecedented.

Although the economy is paused, financial terms are not. Mortgage interest is still accumulating, utility bills still need to be paid, and families need to put food on the table. Plenty of businesses and families have suffered a loss of income, but expenses remain the same.

These issues are not being reflected on the stock market. However, they are being reflected in other data. Unemployment in Canada hit a record high this month. Half a million people have applied for mortgage deferrals. Nearly a million have applied for the Canada Emergency Relief Benefits (CERB) program.

As the shutdown drags on, perhaps for months, these numbers could rise. Economic damage on this scale could take years to climb out of. This gloomy scenario is not being reflected in the stock market.

### Stock market valuation

The Canadian stock market is currently worth \$2.3 trillion. That's 98.2% of the nation's gross domestic product. Generally, a stock market-to-GDP ratio below 100% represents undervaluation. However, in 2020 Canada's GDP is widely expected to decline.

Major banks expect Canada's GDP to shrink by a jaw-dropping 20% in 2020. That forecast could be wrong, but it indicates the historic nature of this current disaster. If GDP does drop by double digits, the stock market still seems overvalued.

In short, the stock market crash could be far from over. Investors may want to wait for a bigger dip ahead.

## Smart money

Another reason I believe we haven't seen the stock market crash isn't over yet is the pin-drop silence from the smart money. Warren Buffett has sold his airline stocks, but he hasn't *bought* anything substantial. Considering he has a [\\$128 billion war chest](#), he's obviously waiting for better valuations.

Similarly, major asset managers and private equity companies haven't made big moves. No one is swooping in to buy distressed iconic properties or cruise lines. There's no sign of multi-billion-dollar mergers or acquisitions. Ray Dalio or David Tepper haven't stepped in yet either.

Smart money moves are usually a beacon for where the market is heading. When you see the Norwegian sovereign wealth fund or Ontario Municipal Employees Retirement System (OMERS) buying assets, that's a green flag. For now, there's no sign of green flags.

## Bottom line

Over the past two months, the stock market has gone from sheer terror to utter optimism. Investors seem to believe the pandemic will be over soon. The way the stock market has rallied, investors seem to be betting on a "V-shaped" economic recovery.

I believe the rally is overdone. Valuations are still too high. Cautious investors should probably wait on the sidelines a little longer.

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