Market Bottom or Tough Road Ahead? A 37.43% TSX Drop That Reveals More

Description

The **Toronto Stock Exchange** (TSX) was already building momentum when it hit 17,944.10 on February 20, 2020. But after 31 days, Canada's main stock market index posted a historic drop of 37.43%.

There was a series of daily drops during the period. The highest single drop was on March 12, 2020, when the TSX lost 1,761.60 points, or 12.34%. Has the TSX reached the bottom or is a tougher road is ahead?

The $82 billion fiscal stimulus package by the government somehow boosted the market. Since the fateful skid, the TSX is up 13.26% (14,166.60) as of April 9, 2020. Unfortunately, things are developing very rapidly. It might get worse before it gets any better.

Past market crashes

Even with a circuit breaker or fiscal stimuli in place, the COVID-19 market crash handily beats the previous TSX routs. The market crises in the past include the 1929 Great Depression, 2008 Great Recession, dot.com bubble, 1987 Black Monday, 1981 recession, and 1973 oil shock.

After the 1929 stock market crash, it took Canadian stock prices 33 days to reach rock-bottom. The 2020 decline we're seeing now is the sharpest so far. Thus, a further crash could happen for several reasons.

Grim developments

As of April 11, 2020, the coronavirus cases in Canada were 22,148, with the death toll at 569. The good news is that 27.15%, or 6,013, patients have recovered. But the battle is not even half won, as public health officials see 22,000 deaths from the pandemic. The estimate takes into account strict physical distancing measures.

The wave of mass layoffs is just beginning. In the third week of March, 970,000 Canadians lost their jobs. According to the Canadian Centre for Policy Alternatives, the figure could escalate to 2 million.

Canada is coming to grips with the recession that will follow the novel coronavirus outbreak. Assuming most industries across the country are shut down for at least six weeks, gross domestic product (GDP) will contract significantly. The Conference Board of Canada sees GDP growth to be only 0.3% in 2020.

Biggest casualty

Among the biggest casualties in the COVID-19 outbreak and oil price war is **Teck Resources** (TSX:TECK.B)(NYSE:TECK). This $6 billion basic materials stock is considering a full shutdown of its oil sands mine. With local prices at record lows, the company can no longer absorb the costs.

A production line at Fort Hills project, a joint venture with **Suncor Energy**, has been closed to preserve cash. Shareholders of the partners must give their consent to a full shutdown of the mine. The shutdown of oil sands translates to a daily volume of 500,000 barrels.

Teck has lost 49.38% year-to-date, with the price tanking to as low as $11.07. The price could fall further following the withdrawal of its 2020 guidance due to production slowdown and workforce reductions.

Teck is hoping to become a major global producer. The suspension of the construction activities at its Quebrada Blanca Phase 2 (QB2) project in Chile will delay the completion.

Grand scale

At the rate the present crisis is going, stock prices could drop more than the 45% drop in 2008 over nine months. The short-term outlook is bad.

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cliew