A Huge Stock Market Selloff Is Coming

Description

For those who think the **TSX** has already reached a bottom, don't be so sure. Another huge market selloff might be coming soon.

Investors haven't fully grasped yet the severity of the damages caused by the COVID-19 to the economy. When they realize the gravity of the situation, the TSX could plunge much more. Fear of a deep and long global recession are mounting. Investors should move forward with caution.

The economy is facing a severe recession

The worst may be yet to come for stock markets. We should be prepared for another stock market selloff. Unigestion, the global asset manager, has warned that the COVID-19 epidemic will lead to a recession on the scale of the global financial crisis. The recession could even become a depression if it lasts too long.

The global recession will likely last a long time. As long as human interaction remains dangerous, companies can't responsibly return to normal. People have had a real shock.

The recovery probably won't be as sharp and quick as many are hoping. It will likely be slow, and certain behaviour patterns are going to change, if not forever at least for a long while.

Consumer confidence will decline further as the economy collapses amid the coronavirus pandemic. Economists have warned that the global economy could take years to recover to its pre-coronavirus state fully. The collapse could be the worst since the Second World War.

The International Monetary Fund said in a blog post that governments should approach the pandemic as if it were a war. They should provide essential supplies to the health care sector, cash transfers to those who have lost their jobs, and exceptional support such as wage subsidies to private businesses.

Another stock market selloff is coming

The market selloff caused by the coronavirus pandemic is far from over. When companies publish their earnings in the coming weeks, the depth of the economic impact of the coronavirus crisis will become clearer, in turn triggering another stock market selloff. Elliott Management wrote in a letter to clients that stocks could fall 50% from February highs.

Investors looking for cheap stocks should be prudent. The P/E ratio may fall because the stock price is falling, but it can also plunge lower because earnings are going down.

Air Canada has been hit deeply by the crisis, as people don’t travel anymore. Its P/E of 3.6 is very low, but that’s because both the share price and earnings have crashed.

Similar to other airline companies, Air Canada will likely be hit for a long time by the lower traffic, so it’s probably not a stock you want to own despite its low P/E.

It’s better to be cautious during these uncertain times. As stocks have gotten cheaper, you might want to take small positions in quality stocks, but you shouldn’t risk more than you can afford to lose.

Buying small amounts of shares on a regular basis appears a better approach than buying large amounts of stocks all at once.

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