



Is the Market Rally Sustainable?

Description

The month of March was rough. At one point, the S&P/TSX Composite Index lost just over 30% of its value. However, the markets closed down by approximately 17% after a late month rally. Aside from a few blips, the market rally is continuing through April. The TSX Index is up by almost 8% since the start of the month.

As a result, the TSX Index is now out of bear market territory. Although we are a ways away from another bull run, everyone is asking themselves if the market rally is sustainable.

Positive COVID-19 data

There are a number of factors that will play into a sustained uptrend. First and foremost, the COVID-19 curve must flatten. Although, the exponential rise of new cases is slowing, North America is still posting record numbers.

Last week's market rally was mostly fueled by the U.S. announcing plans to resume normal operations. The Feds released a phased approach to reopening the U.S. economy. Unfortunately, there is no clear path to normalcy.

Although states such as Florida were quick to re-open certain areas, it will be a while before others follow suit. Likewise, the Canada/U.S. border has extended limited border crossings until the end of May. Similarly, Ontario extended the state of emergency until mid-May.

Bottom line: we are a long way away from a return to normal economic activity. The full impact on the economy is not yet known, and buying into the current market rally is a bet on "hope" — never a good investment strategy.

Oil crash

Canada's TSX Index is facing another headwind: oil prices. Earlier this week, May benchmark North American oil prices turned negative — the first time this has ever happened. When words such as *unprecedented* are used to describe the current market conditions, it is for a reason.

It is not getting any better. As of writing, June contract oil prices are down 40% day over day and WTI is trading at \$11.35 per barrel. On the bright side, Western Canadian Select remains steady in the high single digits.

At these prices, [not even stalwarts](#) like **Suncor** and **Canadian Natural Resources** are cash flow positive. This means investors can expect more dividend cuts. Unfortunately, even the aforementioned best-in-class industry leaders may not be immune.

It is not just Canada's oil and gas industry that will feel the pain. Banks, railways, utilities, and anyone else providing services in Western Canada will be impacted. This will certainly stunt any prolonged market rally on the TSX Index.

Market rally fueled by a few stocks

If you take a deeper dive into the current uptrend, you will see that it is being fueled by only a few industries. Tech in particular is showing incredible strength.

Case in point, [stocks like](#) **Shopify** and **Kinaxis** are hitting 52-week highs. A recent tweet by Shopify's chief technology officer sent the company's share price soaring late last week.

The tweet read, "As we help thousands of businesses to move online, our platform is now handling Black Friday level traffic every day! It won't be long before traffic has doubled or more."

Shopify's stock price is up by 52% in April. Although Shopify is one of the best positioned to benefit from a shift to e-commerce, the sudden jump seems overdone. With a 14-day relative strength index of 75, the company's stock is now in overbought territory. In fact, it is now the second-largest stock in Canada — second only to the **Royal Bank of Canada**.

The current market rally appears unsustainable. The rally has been fueled by only a few stocks and industries. Most of these have run up so quickly, they are also due for a pullback.

In this case, the rising tide is not raising all ships. Many stocks are still sitting on significant losses. Earnings south of the border are also pointing to tough times ahead. Guidance is being cut or pulled, and uncertainty rules the day.

Until the economy is fully open for business, and the price of oil returns to sustainable levels, the markets are likely to remain volatile. In fact, another downtrend is a real possibility.

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