Is the TSX Index Set to Crash in May?

Description

The **TSX Composite Index** has surged more than 30% since its record lows last month. While the situation on the economic front, driven by the pandemic, has continued to deteriorate in the last few weeks, the global financial markets have kept on surging higher. Whether the stocks hold on to these gains in May after bouncing back in April remains to be seen.

TSX Index and the recession

There are several economic indicators that are currently painting a bleak picture for the TSX. According to the C.D. Howe Institute's Business Cycle Council, the Canadian economy has entered a recession in the first quarter of 2020 due to the virus outbreak. A recession generally occurs when the economy declines for two straight quarters.

The economic impact of the pandemic is still in the early stages. More than a million people became jobless last month, and thus loan defaults will likely increase substantially in the next few quarters.

According to Statistics Canada, three-fourths of Canadian businesses expect a revenue decline of 20-50% in April. Corporate earnings growth is also expected to be worrisome, which will most likely pave the downward path for the TSX Index going forward. Notably, COVID-19 has caused massive economic disruptions that could take time to heal.

Shopify led the way

Interestingly, hopes of quicker-than-expected recovery from the pandemic and re-opening of some major economies drove the TSX Index higher in April. **Royal Bank of Canada**, the biggest constituent of the TSX Index, surged more than 15%. The tech giant **Shopify** alone surged a mammoth 60% last month.

However, although the information technology sector stands relatively better in the current market scenario, industries such as energy and industrial are notably reeling under pressure. A vertical drop in crude oil prices brought a double whammy for the energy industry, which is the second-biggest sector in the TSX Index. Stocks of energy giants **Suncor Energy** and **Canadian Natural Resources** have fallen almost 50% each so far this year.

Why Warrant Buffett did not buy during the epic crash

The legendary investor Warren Buffett did not find the recent COVID-19 crash attractive. **Berkshire Hathaway** continued to sit on a massive cash pile of $137 billion, even though the **S&P 500** corrected 35% in March. Interestingly, Buffett was a net seller during the brutal selloff. His staying put could be inferred, as he might be expecting a much brutal fall.

The TSX Index is still trading 20% lower to its all-time high levels in February. However, these increasing uncertainties could hinder its upward march in the near term. Government stimulus could act as an insulator and could avoid things getting uglier. However, the longer the virus and lockdowns last, the economic picture will likely turn bleaker. Re-opening economies is surely a way to go forward. How it plays out on the virus outbreak and on the economic front will be vital to see.

However, long-term investors need not panic. Like many economic cycles in the past, this too shall pass. The 2008 financial crisis lasted for almost 15 months, which was followed by a decade-long bull rally.

Investors can switch to stocks that pay consistent dividends and have a non-cyclical nature of business. A regular dividend and a slow stock movement irrespective of the broader markets would be a smart bet in the current market scenario.

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