



Does Warren Buffett Expect Another Market Crash in 2020?

Description

Warren Buffett is one of the most revered investors on Wall Street. Also known as the Oracle of Omaha, Buffett has managed to beat the broader markets time and again. When he speaks, millions listen. On May 2, **Berkshire Hathaway** announced its first-quarter results and held its annual shareholder meeting.

The big news was Warren Buffett's exit from airline stocks. Berkshire Hathaway liquidated shares in all of its airline stocks including **American Airlines**, **Delta Airlines**, **Southwest Airlines**, and **United Airlines**.

Unsurprisingly, this news sent shares of all these companies lower. **Air Canada** stock has also fallen close to 12% in the last two trading sessions. The airline space is highly volatile and has been decimated in recent weeks. As countries around the world have shut their borders, air traffic is down 90%.

Air Canada and peers will experience a drastic fall in revenue for the first two quarters of 2020. The airline sector is a capital-intensive business, and companies are losing millions of dollars every day. In the first quarter, Air Canada posted a net loss of \$1 billion.

Even if lockdown rules are relaxed, it might take months or years for air traffic to reach 2019 levels. High unemployment rates coupled with an economic downturn might weigh on consumer spending. The travel and tourism sector generally takes a long time to rebound in a recession. We [have seen why](#) Air Canada stock might remain volatile despite its strong balance sheet and cost-cutting measures.

While Berkshire Hathaway liquidated its stake in airline companies, is Warren Buffett bearish on the overall stock market in the near term?

Berkshire Hathaway's cash balance stands at US\$137 billion

Buffett had once famously said that investors need to be greedy when others are fearful. This means you need to buy top-quality companies when others are selling. A bear market provides investors an

opportunity to buy stocks at cheap valuations.

Several people expected Buffett to be greedy when markets tanked close to 35% between February 19 and March 18 this year. However, Berkshire Hathaway has not been buying shares in bulk amid this carnage.

In fact, the investment company ended the first quarter with a cash balance of US\$137 billion, up from US\$128 billion at the end of 2019. However, the investment giant was still a net buyer of equities. The [company purchased](#) \$4.003 billion of stock and sold \$2.16 billion worth of equity in the first quarter.

In April, Berkshire purchased \$426 million in public equities and sold stocks worth a mammoth \$6.51 billion (primarily in airlines).

There are far too many uncertainties surrounding equity markets right now which has also stumped the great Buffett.

What does the Warren Buffett indicator say?

Buffett's stock market indicator calculates the total market cap of a stock market as a ratio of the country's gross domestic product. If this ratio is below 100%, then the market is undervalued and vice versa.

At the end of 2019, the Buffett indicator touched an all-time high of 153%. It is now at 133%, which indicates the equity markets south of the border are still overvalued by 33%. Comparatively, this figure for the TSX is low at 107%.

If the U.S. market tanks, it will have a ripple effect on Canadian and global investors. The GDP of several countries will take massive hits in 2020, which means that there is significant downside potential from current levels. It remains to be seen if the markets will move lower proving, Buffett right once again.

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Date

2025/08/25

Date Created

2020/05/06

Author

araghunath

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