



Stock Market Rally in May? 3 Metrics to Watch

Description

Much has been made of the historic rally that followed the March stock market crash. But how sustainable *is* bullish sentiment? And what signs of a recovery should investors watch for? Let's take a look at three indicators of a market rally.

Watch the performance of safe havens

Gold is a tried-and-tested bellwether of the market's sentiment. Investors should watch the performance of big names like **Barrick Gold** as well as precious metals indexes. Consumer staples are also an [indicator of uncertainty](#) in the virus market. Grocery store stocks have proven steadfast during the frothiness of the virus market.

Another indicator of a market rally would be a pullback in [stocks that reflect social distancing](#). Social distancing has changed the way many businesses operate. In some cases, business has dried up altogether.

For some other companies, however, social distancing actually supports their business model. One such company is **BCE**. Its share price performance therefore reflects sentiment toward the virus.

BCE has emerged as a resilient name during the impact on the stock markets from the coronavirus. After all, it's a strong, wide moat telco play with media exposure. And there's that dividend to think about, as well.

The current valuation has pushed the yield up to 5.9% — a significantly high yield in a sector that has proven resistant — some may say essential — during the lockdown market.

Keep an eye on bank stocks

Bank stocks track the economy. If you start seeing sustained recovery of Big Five share prices, you know that the appetite for risk has returned. Look at the smaller names as indicators of a market rally

rather than the likes of **TD Bank**.

CIBC is a good stock to watch in the space if you're trying to gauge the Canadian market. It has less exposure to growth south of the border than TD Bank, making for a purer play on our economy.

Look for signs of a vaccine

Biotech stocks are likely to exhibit significant positive momentum, with the sector valued at a potential \$775 billion in the next four years. Scientists are poised to become the rock stars of the new decade, with disease treatment and prevention transitioning into a major growth industry.

Watch **Gilead** and other healthcare names as indicators of sentiment, but also keep an eye on the headlines. Any hint of a successful trial of a vaccine will see a stock market rally.

This especially holds true for healthcare stocks. Pharma stocks are also an indicator of sentiment in this regard, and not just for companies directly involved. Sentiment is often reflective, and entire industries can be buoyed by a single breakthrough.

The bottom line

If there is a rally in May, use it to trim underperforming names for a stock portfolio. The eventual vaccine will serve as a market uncertainty backstop.

Until then, the markets will continue to look for guidance. Reopened economies will bring risks of their own, with the potential for stocks to revisit March sell-offs. Investors should therefore hold cash and gauge sentiment via drug breakthroughs.

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Date

2025/07/06

Date Created

2020/05/06

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