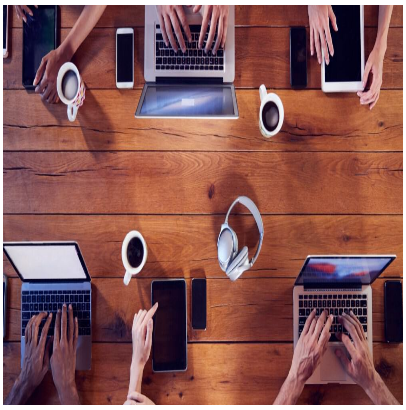

Forget the Market Rally and Buy Tech Stocks

Description

Investors have been told that the market is rallying. Some bullish pundits have even declared that stocks have finally recovered. However, the TSX is down 15% for the last three months. The current respite from the extreme volatility of the March market crash is simply the eye of the storm. What the markets need is guidance. That will come when the economy re-opens. But a true recovery won't come until the economy gets a backstop.

A true stock market recovery needs a backstop

That backstop is the control and management, if not the eradication, of the coronavirus. The spread of the coronavirus (SARS-CoV-2), which causes the disease known as COVID-19, has been slowed by the introduction of physical distancing. This process of distancing is due to be eased, largely so the economy can be stimulated. What's essential, though, is a vaccine. Recovery, both social and economic, will be piecemeal without one.

Appetite for risk is going to come back with a bang once a vaccine has been rolled out. The rally will come in waves, though, rather than one all-encompassing event. This is because the rollout of the vaccine will itself come in stages. First will come the creation of a vaccine. This will cause a stock market rally all of its own. Then the vaccine will have to pass through testing. And then, finally, it will be distributed.

Each step along this path to recovery will see a market rally of its own. But the recovery of the markets will be gradual at best after that, though, with a lasting recession possible. Entire sectors will have to regroup and retool as the economy gets back on its feet.

Forget the rally and buy tech stocks instead

There are few stocks that can be called truly heroic amid the current economic crisis. Healthcare REITs and consumer staples plays have come in for particular attention. Other sectors seeing virus-specific upside include gold miners and pharma stocks. Physical distancing has also forced retailers to step up. **Canadian Tire** has seen a steep uptick in online sales. And, of course, **Shopify** smashed expectations during the market crash.

Shopify's Q1 earnings beat may not be replicable. This shouldn't matter, though, since Shopify is shaping up as a true forever stock. Growth investors should settle in for a lower, but still sustained, level of revenue increase in this name. Investors should consider buying the Shopify pullback then sitting back to ride years of steady upside.

Meanwhile, there's more momentum to be enjoyed elsewhere, as other earnings beats are hotly anticipated across the TSX. Tech is a big issue in the "physical-distancing" market, and the TSX packs some strong plays. Investors should therefore keep an eye on names like **Descartes** and **Kinaxis**.

The bottom line

Stocks will pull back as the enormity of the task at hand sinks in. But the bottom line is that the backstop is a successfully implemented vaccine. Investors waiting for a rally and looking for growth should focus on growth sectors in the meantime and buy top tech stocks.

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Date
2025/07/17

Date Created
2020/05/08
Author
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