
TSX Stocks: Why the Market Rally Seems to Have Reached a Crucial Point

### Description

It’s been a fantastic comeback for **TSX** stocks in the last two months. Stock markets continued to soar despite increasing tensions on the pandemic front.



The **TSX Composite Index** has risen more than 30% since its 52-week low in March. Surprisingly, despite entering a recession this month, Canadian stocks at large have maintained positive momentum. However, the market rally seems to have reached a critical point now, and upside from here looks limited.

## Uncertainties multiply

TSX stocks took a break from their upward climb and lost more than 2% last week. It looks like market participants are gradually admitting that the re-opening of economies is not going to be that easy. Countries have seen a surge in COVID-19 cases where lockdowns are partially released.

Thus, business activities might take longer than expected to recover, and the economic downturn could get more severe. Some even anticipate a second and third wave of the pandemic, which could further deteriorate the situation.

To add to the woes, already-stained U.S.-China trade relations are further spoiling amid the COVID-19 blame game. The out-and-out trade war had a big dent on the global economy last year. These uncertainties might dampen corporate and investor sentiment in the near future, which might significantly weigh on the stock markets.

Top Canadian banks will release their quarterly earnings next week. While the earnings period covers most of the lockdown days, the numbers are not expected to be pretty. How provisions impact banks’ bottom lines remains to be seen.

Furthermore, how TSX bank stocks respond to these numbers will also be interesting to see. Banksare the biggest constituents of the TSX Index, and their fall could notably bulldoze the broad marketindex.

The biggest of them all, **Royal Bank of Canada** will report its quarterly numbers on May 27, while **Bank of Nova Scotia** will report on May 26. Both these stocks have lost more than 25% in the pandemic-driven market crash so far.

## Top TSX stock to watch this week

**Air Canada** (TSX:AC) stock could continue to trade weak this week as well. The country's biggest airline is grappling with challenges, and investors' fears are not expected to wane soon.

Last week, the airline announced to trim 20,000 to 22,800 workers from June 7 as a cost-cutting measure, approximately 60% of Air Canada's total workforce. The aviation sector in the country has not heard anything firm relating to the government aid so far.

Top TSX stock Air Canada has lost more than 25% since its first-quarter earnings earlier in the month. The stock has fallen more than 70% so far in the pandemic-driven weakness. Air Canada reported steep losses in the first quarter, and those could further swell for the current quarter.



Air Canada is already operating at some 10%-15% capacity amid closed borders and travel restrictions. It might restart partial operations in July, but fear and uncertainty might continue to dominate flyers.

The pandemic could dent its bottom line for several quarters, and that could notably weigh on the Air Canada stock.

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**Date**
2025/07/07
**Date Created**
2020/05/18
**Author**
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