This Market Rally Feels Fragile: Here’s Why

Description

The uncertainty surrounding the coronavirus path and its impact on the economy initially weighed on the stock market. The TSX plunged by 34% in March after peaking in late February. But the stock market started to surge after governments announced help to support the economy. The TSX has gained more than 30% from its March low. The market technically enters a bull market when it gains at least 20% from its lows. But this rally could just be a bear market rally.

It’s likely just a bear market rally

A bear market rally is a rally that happens during a market crash. According to John Hussman, a former economics professor who owns a hedge fund, each slowdown has a false rally.

The stock market rally looks like a return to normal, but, in reality, it’s the start of the bear market. The real crash usually starts after a relief rally.

The stock market seems to be in the “return-to-normal” trap of Jean-Paul Rodrigue’s “stages in a bubble” economic model. That means the real stock market crash might not have even started yet.

If we are in the “return-to-normal” phase, a massive crash will be coming as the bubble bursts. The recent stock market rally is likely just a temporary period that serves as a signal for an even sharper plunge. Major market declines usually take years to recover.

The stock market will crash as a recovery takes longer than expected

A V-shaped recovery could be possible with a vaccine. But this optimistic scenario is unlikely to happen since a vaccine probably won’t be available until mid-2021.

The stock market rally feels fragile for many reasons. A second wave of COVID-19 might hit in the fall, which would prolong the recovery.

The stock market seems to underestimate how the pandemic will permanently change behaviours. It could take months, or even years, before Canadians crowd into public spaces and spend the way they did before the pandemic. Companies may swap offices for remote working.

Many businesses won’t be able to continue running at a reduced capacity and be forced to close, especially small businesses.

The economy shed nearly two million jobs in April, driving the total number of job losses since the start of the COVID-19 shutdown to over three million and the unemployment rate to 13%. Many workers might not get their job back. Unemployed people spend less.

Consumers are not only spending less but spending differently; many are trading in-store shopping for online shopping. New spending habits may continue after the economy re-opens. Many businesses will suffer from lower traffic and spending.

The economic recovery will likely be long and slow until we have a vaccine or an effective treatment. The economy probably won’t bounce back until late 2022. A slow recovery will impact the stock market.

The stock market rally will end when optimism towards a quick recovery fades. Because there is a lot of uncertainty regarding the economy and the stock market, owning quality stocks that can withstand a recession like **Metro** is crucial.

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