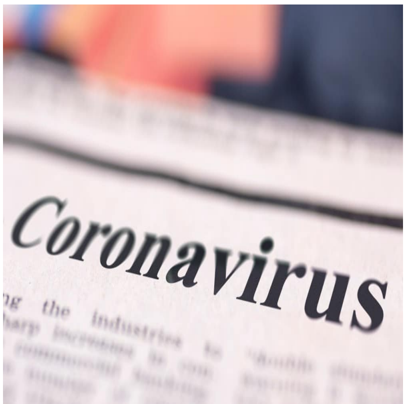

Is the Stock Market Overreacting to Good COVID-19 News?

Description

The Toronto Stock Exchange (TSX) is rallying in recent days, despite the high volatility. I feel, however, the stock market is overreacting. Investors are chasing after COVID-19 news. Every bit of good news can prop up the market. The bad news that could come is another wave of the coronavirus. Its impact could be deadlier the second time around.

The first wave

Global stock markets crashed when the COVID-19 outbreak became headline news. The TSX posted a 12% single-day drop on March 12, 2020. It finished the day at 12,503.50, or 27% lower than the 2019 year-end closing of 17,063.40.

As of this writing, the index has recovered some of the losses. Since that fateful date in March, the TSX has risen by 19% to 14,913.60. Year to date, the index is still down by 13%. The TSX is playing catch up after the Victoria Day holiday. Ten of the 11 sectors are in positive territory. The healthcare and energy sectors are leading the advance.

Stocks to watch

Investors should keep sector leaders **Enbridge** (TSX:ENB)(NYSE:ENB) and **Shopify** (TSX;SHOP)(NYSE:SHOP) on their radars. Both remain noteworthy investments moving forward and into the post-pandemic era.

Income investors will not ditch Enbridge. This $89 billion firm is the premier energy infrastructure company in North America. It was another show of resiliency when Enbridge presented its Q1 2020 earnings results recently. The oil downturn and COVID-19 did not impact the healthy dividends.

The energy stock is losing by 12% year to date, but the dividend yield is an attractive 7.36%. Enbridge will continue to perform and deliver reliable cash flows, notwithstanding a challenging environment.The main takeaway is the business model.

A weaker company would have cut dividends to protect the balance sheet, but not Enbridge. It functions as a utility company. The cash flow and revenue stream are predictable.

Also, it’s rare for a midstream company to get investment-grade credit ratings from top rating agencies like **S&P 500** and **Moody’s**. If you buy Enbridge today, hold it for the long haul.

Please make no mistake about it, as Shopify is still the best tech stock on the TSX. The price fell to a low of $458.52 on March 16, 2020. As of this writing, the stock is trading at $1,154.32 per share. The meteoric rise of 152% took only 37 days. Had you invested $10,000 on the dip, your money would be worth $25,200 today.

Tech companies are well positioned for the “new normal” in the aftermath of the pandemic. According to Shopify CEO Tobi Lütke, the company is fast adapting to the remote working environment. He describes the present mode as “digital by default.”

The cost structure is also changing. Shopify is moving from the traditional working environment. Only 20-25% of its employees will work at the office. You can expect this $137.82 billion company to grow bigger further down the road.

Thousands of merchants doing business at home will need Shopify’s cloud-based multichannel commerce platform. The next **Amazon** is a Canadian firm.

Good news fuels a market rally

The good news so far is the flattening curve and limiting the spread of COVID-19. It can fuel a market rally while the world waits for the vaccine.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:ENB (Enbridge Inc.)

4. TSX:SHOP (Shopify Inc.)

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Date
2025/08/23
Date Created
2020/05/27
Author
cliew