



## Have We Entered the Next Market Crash?

### Description

It seems as though the last market crash was an entire lifetime ago. The COVID-19 pandemic caused markets [around the world](#) to plunge by as much as 40% across the board. This included the **S&P/TSX Composite**, which fell 38% between the end of February and the end of March.

Since the market crash, it appeared the markets would slowly but surely rebound. Investors became optimistic, bringing the **TSX** up 43% by the beginning of June. But even as the markets rebounded, economists are warning of yet another crash.

Now some are asking whether the market crash is already upon us. If you look at the last market crash, the markets fell about 6% before plummeting at the end of February. Fast forward to today, and during the last month there have been two dips in the TSX.

After hitting a peak not seen witnessed since the beginning of March, the TSX fell 6% in mid -June, climbing a bit before slowly falling once more. Could a market crash be underway?

### Market crash signs

We were living in a bubble during the last decade. Housing prices, share prices, and economies climbed to all-time highs. But so did global debt. All of this was a sign that this bubble would soon burst, causing a market crash.

But when the market crash happened, governments responded by creating more debt to stimulate the economy. Around the world, US\$9 trillion got pumped into the economy. The hope was to stimulate growth that could help keep the economy steady.

But as COVID-19 continues to rage on, and the oil and gas crisis remains a problem, there's only so much you can pump into the economy.

Even before COVID-19, the Institute of International Finance stated that in 2019 there would be an economic slowdown about half as bad as the one in 2008. About US\$19 trillion in debt would need to

be paid by non-financial firms that would no longer have the earnings to cover the interest payments. This prediction hasn't changed. There is now even more debt, and even less money to pay back that debt.

## Hit by summer

It's unclear still whether the TSX is entering another market crash, but if not, one will surely hit — and soon. As the summer comes to an end, another round of earnings reports will come in.

Those stocks to pay particular attention to are the ones from the major institutions that take up the TSX, including the financial and energy sectors. So as banks and major energy companies come out with earnings reports, those reports are likely to continue to drop.

Once these businesses drop, so too will the TSX yet again. It's likely this could be the beginning of another market crash — one that may stick around until the end of the summer. So, what should you do about it?

## Buy now

It might sound strange to consider buying if a market crash is coming. But here's the thing: you should never plan for a market bottom. The better strategy is to buy up strong stocks that stand to make stable growth over the next several years, or even decades.

In that case, I would consider bank stocks. Canadian banks fared as some of the best in the world during the last financial crisis. One of the top stocks is **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

The bank has a market capitalization of about \$130 billion as of writing, with \$1.49 trillion in assets. So while it's likely to be hurt by the [financial crisis](#), it has the backing to make a strong comeback, especially as the biggest bank based on market cap.

If the bank hits pre-crash prices in the next year, which it should, that means today's share price has a potential upside of 20%, so even with a market crash you're getting a discount.

Meanwhile, the bank has a 4.64% dividend yield, which has increased even during this downturn. That's definitely something you should take advantage of as soon as possible.

### CATEGORY

1. Bank Stocks
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### TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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