Are We in a “Crazy” Stock Market Bubble Right Now?

Description

Many countries are deploying emergency money to help people cope with the health crisis. Canada has been spending billions in several COVID-19-related programs. Companies can rehire employees while workers, parents, seniors, and students have financial relief.

All these stimulus packages are boosting stock markets and creating a bubble. The market behaviour is a bit odd, because indexes are advancing, as the economy deteriorates. The unemployment rate is rising, as companies go bankrupt.

Will the crazy market bubble soon burst?

Real McCoy

Jeremy Grantham from Grantham, Mayo, Van Otterloo & Co. in Boston warns the stock market rally is without precedence. The chief investment strategist predicts the bubble will eventually burst, and if it does, it will be the Real McCoy. Markets will fall by the wayside.

According to Grantham, the U.S. market bubble is the most “bubblicious” he has seen in his career. Investors are speculating on bankrupt companies. A market surge is happening, despite the poor health of the economy.

Grantham is a noted spotter of market bubbles. He read the 2000 and 2007 market downturns right. The same elements in previous crashes are present. However, the pandemic will inflict a lot more pain.

TSX performance

Last year was a banner year for the Toronto Stock Exchange (TSX). Canada’s main stock index finished 2019 at 17,063.40, or a 21% rise over the past 12 months. Technology and industrials were the drivers and not the usual sectors, such as banking, energy, mining, or materials.

The TSX was off to a good start in 2020, as it climbed to 17,944.10 on February 20, 2020. Then news about a spreading virus came out. When COVID-19 was declared a global pandemic, the index sunk by 37.42% to 11,228.50 on March 23, 2020.

The federal government introduced an expensive COVID-19 Response Plan. As of June 29, 2020, the TSX is at 15,389.70, a 37% rally from its lowest point. Somehow, it lends credence to Grantham's prediction, because the Canadian economy is heading into a deep recession.

Real benefit

The economic uncertainty at present is massive, but **Real Matters** (TSX:REAL) is holding its position as one of the top-performing TSX stocks in the pandemic. This $1.99 billion software provider to the real estate, mortgage financing sector was the best performer in 2019.

Last year, Real Matters delivered a 284.55% gain to investors ($3.30 to $12.69). In 2020, we see a repeat performance. As of this writing, this tech stock is up by 92.11% year to date. Despite the heightened volatility, the company has a long runway for revenue growth moving forward.

Mortgage appraisal is the expertise of Real Matters. The bulk of revenues (90%) come from the U.S. mortgage industry. The company is benefiting from the rising volume in the refinancing market due to the rock-bottom interest rates.

Technology adoption is accelerating, favouring Real Matters's network services for the mortgage and insurance industries. The use of technology is one way to mitigate the pandemic's impact.

Cautious investing

Grantham is painting a very dire investment landscape. Investors should remain on the side of caution when taking stock positions.

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