TSX Stock Investors: Expect a Correction This Fall

Description

Overvaluation is becoming increasingly dangerous as the market begins to wake up to the dangerous realities of the economy. **Shopify** (TSX:SHOP)(NYSE:SHOP) feels like an elevator stuck between floors at the moment.

Its valuation is dangerously high, while its pandemic-appropriate digital model means that ground-level prices are unlikely. Perhaps **Goldman Sachs**' previous grade of Neutral was appropriate after all.

Uninvested observers, meanwhile, may well have missed the boat on this one. Shopify is now unlikely to either repeat its Q1-Q2 growth spurt, or to fall to appropriate entry point levels. In other words, while this company clearly has a strong future ahead of it, investors should not expect fireworks again anytime soon. This stock is also unlikely to play nice either with a vaccine or with an attending rejuvenated retail environment.

A tech pullback has already started

Tech is already seeing the beginnings of a correction. A **Moderna** breakthrough was an early red flag for tech stocks that went largely uncommented on by analysts. Rather, jitters surrounding overvaluation were cited for a broad pullback that saw **Kinaxis**, **Docebo**, **Twitter**, Shopify and others retreat. But overvaluation is more of a symptom than an underlying cause. The cause, of course, is the pandemic.

But forget semiconductors, data centres, and other "old reliable" tech asset types. Those types of tech stocks are comparatively solid. Instead, the most immediate danger of overvaluation lies in tech names with shorter track records.

The pandemic has pushed speculative tech stocks higher. Shopify is an obvious example. Pushed higher by the pandemic, the subsequent easing of the health crisis may not bode well for such names.

A dismal earnings season is roiling stocks

So that's one correction to watch for. With earnings season in progress for a raft of FAANG and FAANG-adjacent stocks, a deeper tech pullback could be in the making. But the broader correction – if it doesn't happen sooner – is likely to come this fall. The cause? The U.S. election.

But with hurricane season underway, dismal economic revelations, and U.S.-China tensions heating up again, any number of risks abound.

Air Canada (TSX:AC) will report its earnings tomorrow, providing another crucial insight into the depths of the pandemic devastation. The troubled aviator's response to the pandemic has been scattershot, to say the least.

From dipping its toes in the cargo-only space to selling middle aisle seats, Air Canada is going through something of an identity crisis. But have fear: The report on its performance during this year's second quarter should help with that.

It seems safe to assume that investors will have to endure another Air Canada selloff. The stock was down 4% ahead of earnings, signifying what the market makes of its chances. Down 63.7% year over year, Air Canada looks rather like a post-legalization cannabis stock.

The comparison could turn out to be apt given the levels of risk-laden momentum both sectors have generated. Going forward, Air Canada, like Shopify, will reflect investor sentiment and the market's appetite for risk.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:AC (Air Canada)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing
2. Stocks for Beginners
3. Tech Stocks

Date
2025/09/22
Date Created
2020/07/30
Author
vhetherington