Warren Buffett: Does the Oracle of Omaha Expect Another Market Crash?

Description

Warren Buffett is one of the greatest investors of all time and has managed to outperform the broader markets over the past several decades. Buffett, also known as the Oracle of Omaha, surprised investors earlier this year when **Berkshire Hathaway** did not go bargain hunting during the bear market of 2020.

Instead, the investment company ended Q1 with $137 billion in cash after dumping airline stocks and exiting the space. While the broader markets have somewhat recovered from March lows, there are several companies across sectors that are trading at beaten-down valuations.

However, Berkshire Hathaway, in fact, repurchased $5.1 billion of its stock in Q2, which was more than twice its $2.2 billion figure in the fourth quarter of 2019. The company also ended the June quarter with a staggering $140 billion in cash.

So, if Warren Buffett is not buying stocks in a bear market, does that mean he forecasts a market crash?

The Warren Buffett indicator suggests markets are significantly overvalued

Warren Buffett has claimed over the years that one of the easiest ways of valuing equity markets is by calculating the market cap-to-GDP ratio. This ratio, also known as the Warren Buffett Indicator, is used as a pointer to gauge if markets are reasonably valued, undervalued, or overpriced.

For example, if the ratio is below 75%, we can state that the market is undervalued; if it’s between 75% to 100%, the market is trading at reasonable multiples. However, if this multiple is over the 100% mark, investors need to brace for a market correction.

During the market crash of 2008-09, the Warren Buffett Indicator south of the border was about 140%. However, right now this ratio is close to 175%, which should make investors sweat.

The ongoing COVID-19 pandemic, which led to global lockdowns, sent consumer spending spiraling downwards. This, in turn, led to industry-wide layoffs across the airline, tourism, retail, energy, and hospitality sectors. The rapid spike in unemployment rates also dragged global economies into recession.

The world is still grappling with the pandemic, and there is the fear of a second wave of the virus, which will be devastating to individuals and businesses. Given the uncertainties, it is really surprising how markets how rebounded in the last four-and-a-half months.

This energy giant is owned by Berkshire Hathaway

While equity markets are expected to remain volatile in the near term, it is impossible to time the markets. You can instead look to identify quality stocks that are trading at a cheap valuation, such as **Suncor Energy** (TSX:SU)(NYSE:SU).

Berkshire Hathaway owns 14.95 million Suncor shares worth US$241 million, indicating a 1% stake in the company. Suncor is a Canada-based integrated energy player that has lost significant momentum in the last few years.

Suncor stock is currently trading at $21.62, which is 52% below its 52-week high. Due to the weakness among energy stocks and low crude oil prices, the company cut dividends by 55% earlier this year, which also contributed to the stock decline.

However, Suncor's integrated business combined with cost-saving measures and a potential recovery in oil prices makes it a good bet for contrarian investors. Suncor confirmed oil production will be profitable if WTI (West Texas Intermediate) trades over US$35 per barrel and will help the company cover costs, meet capex requirements, and pay dividends.

Crude oil is now inching close to US$40 per barrel which means Suncor can navigate the ongoing crisis and bounce back once demand stabilizes.

The Foolish takeaway

The pandemic will continue to negatively impact several sectors and delay economic recovery. The current market rally is driven by optimism rather than fundamentals, which is why Warren Buffett is keeping cash on hand and going bottom fishing when the time is right.

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