



TSX Approaches Pre-Pandemic Levels: The 2nd Stock Market Crash Seems Unlikely

Description

The stock market is very unpredictable in many ways. The global stock markets crashed in March when the COVID-19 outbreak was declared a pandemic. However, the government's stimulus package helped the market rebound. Today, after four months of rebound, the market is close to its pre-pandemic level.

In the March sell-off, the Oracle of Omaha, Warren Buffett, went against his advice and sold airline and bank stocks at a dip. He turned out to be right, as these stocks are unlikely to see growth in the next two to three years. But what surprised the analysts was his inactivity in a bear market. Many interpreted this activity as the silence before the [second market crash](#).

However, the stock market rally shows that another market crash is unlikely.

TSX approaches it pre-pandemic levels

The **S&P 500 Index** has surged 2.3% year to date (YTD) after falling 31% in March. The index has rebounded since then and is now up by around 50%. The **S&P/TSX Composite Index** is catching up. It is down 3.5% YTD. After falling 34% in March, the index has rebounded and is now up by around 47%.

This market rebound is being led by virus stocks, which were the ultimate beneficiaries of the pandemic. For instance, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock surged 140% to become the most valued stock of the Toronto Stock Exchange. It has a market capitalization of over \$155 billion.

The stock market has been rising on the back of the government's \$202 billion fiscal stimulus package. The Canada Revenue Agency (CRA) provided cash benefits to everyone from students to salaried employees to self-employed to workers to employers:

- The CRA helped businesses pay employee salaries and rent.

- It gave \$2,000 in living expenses to students and unemployed Canadians.
- It gave an extra \$400 to singles, \$600 to couples, and \$300 to parents per child.

Will the stock market crash again in 2020?

The cash infusion helped the economy from falling into recession. The CRA has extended the support to employers till December. But it will end its cash benefit to students and Canadians in August and September, respectively.

[Canada's unemployment rate](#) has been falling from 13.7% in May to 12.3% in June and 10.9% in July. If this trend continues, the unemployment rate will fall to around 8% by September. There will be some decline in the stock market when the cash benefit ends. But the intensity of the decline depends on the CERB alternative Justin Trudeau's government brings.

The virus stocks, especially Shopify, will see some correction as the pandemic-driven revenue fades. For instance, Shopify's revenue doubled in the second quarter as all the physical store traffic was diverted to online stores. It remains to be seen if the company can retain this growth momentum. However, other stocks, such as **Lightspeed POS** and **Enbridge**, will see a surge as the economy recovers.

If analysts have rightly interpreted a second stock market crash, it will most likely come in October when the CRA withdraws cash benefits. There can also be an unexpected market crash if there is a second wave of coronavirus.

This stock is resilient to a stock market crash

It is difficult to time a market crash. Amid the uncertainty around the second stock market crash, you should invest in stocks that are resilient to the economy. One such stock is **Kinaxis** ([TSX:KXS](#)), a provider of supply chain planning solutions.

Kinaxis's revenue rose 45% year over year (YoY) to US\$61.4 billion in the second quarter, as many large enterprises renewed their subscriptions for longer terms. Its adjusted EBITDA margin reached 36.6%, its highest in over two years. Its stock price doubled YTD. The stock grew even before the pandemic, during the pandemic, and has the potential to grow even after the pandemic.

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