3 Reasons Not to Worry About Another Stock Market Crash

Description

The **S&P/TSX Composite Index** is up 46% from March 2020 and just 8% lower than its all-time high before the crisis. In other words, investors have nearly recovered from the stock market crash earlier this year.

However, the underlying economy is still suffering. Unemployment is at a record high, while retailers and small businesses face a wave of bankruptcies. Could this trigger another stock market crash? Here are three reasons why investors shouldn't worry about another dip in the market anytime soon.

Signs of a recovery

For the economy, it looks like the worst is over. Domestic air travel is gradually recovering, while nearly every province in the country in the later stages of reopening. Toronto, where I live, has moved into phase three, which means we can dine indoors and get haircuts now.

Deloitte's research suggests foot traffic in retail locations is just 8% below pre-crisis levels. Meanwhile, the Economic Development Corp.'s tracker suggests economic activity has rebounded sharply in July and August. If the pace continues, Canada's economic activity could be back to pre-crisis levels by September!

In short, Canada has tackled this crisis better than most developed countries, and we could make a faster recovery as a result.

Government stimulus

Canada's economic stimulus packages have also been more generous than most other countries. Programs such as the Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Response Benefit (CERB) have put a floor on household finances. Meanwhile, the directive to defer mortgage and rent payments for the unemployed and struggling has insulated millions from economic chaos.

This means the average Canadian is more optimistic and financially secure to start consuming again, once the economy bounces back. Consumer spending and rising employment is good for stocks.

Also, government stimulus measures lower the cost of borrowing for large corporations. If massive companies can borrow money cheaply, they're in a better position to survive this crisis. Cheap cash prevents bankruptcies and fuels the recovery.

Uneven stock market crash

The stock market crash was spread unevenly in the economy. Several stocks, such as **Brookfield Properties** and **Air Canada**, haven't yet recovered. Meanwhile, tech stocks such as **Shopify** have bounced back stronger.

The difference in stock prices reflects the business realities for these sectors. While airlines and commercial properties are still at risk, online sales have skyrocketed. In other words, the fundamentals have improved for some companies, and that is reflected in the stock prices.

The best-performing stock on the TSX index, Shopify, has also seen the biggest jump in sales. The stock price is justified when you account for this unprecedented level of growth.

Bottom line

Concerns about a stock market crash are justified. After all, the recent rally has been unlike any other. However, the stocks that have performed best are supported by improving fundamentals. Government stimulus measures and evidence of an economic recovery support the stock market even further.

A stock market crash cannot be ruled out, but it's not as likely as most believe.

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