3 Reasons You Shouldn’t Worry About a Market Crash

Description

There has been anxiety surrounding this red-hot market since the late spring. At the time, I’d discussed whether investors should take profits and wait out the summer. For those who have held on tight, the summer has offered some attractive gains. Today, I want to discuss some of the reasons a market crash is unlikely in the second half of the year. Let’s jump in.

Market crash? Top sectors are still undervalued

The **S&P/TSX Composite Index** does not offer the discounts it did in the middle of March. However, that does not mean that every sector has enjoyed the rebound we have seen in technology and healthcare. On the contrary, many of the country’s top sectors and stocks have still failed to rebound from the March market crash.

Royal Bank (TSX:RY)(NYSE:RY) is the top holding on the TSX index. The largest bank in Canada has seen its stock drop 2% in 2020 as of close on August 14. Shares have climbed 18% over the past three months. Canada’s top banks reported a massive increase in provisions for credit losses in the second quarter in response to the COVID-19 pandemic and subsequent lockdowns. However, their stocks responded well with investor confidence rising.

Shares of Royal Bank possess a price-to-earnings (P/E) ratio of 12 and a price-to-book (P/B) value of 1.7. This puts Royal Bank in favourable value territory relative to its industry peers.

Scotiabank is another bank stock in the top five holdings on the TSX. Its stock boasts an attractive P/E ratio of 9.5 and a P/B value of 1.1. Better yet, Scotiabank offers a quarterly dividend of $0.90 per share. This represents a strong 6.2% yield.

BCE is the top telecom by market cap in Canada. The stock has dropped 2.8% in 2020 so far. Shares last had a solid P/E ratio of 20. It last paid out a quarterly dividend of $0.8325 per share, representing a 5.8% yield.

Canada’s economy is on the mend

Canada’s jobless rate has fallen to 10.9% compared to the 13% it registered earlier this summer. This is still high by historic standards, but this is a promising trend that should reassure those worried about a market crash. But certain sectors remain in crisis. Last month, I’d suggested that investors should avoid at-risk retailers like **Roots**. **Cineplex** is another company in crisis, but theatres have been given the greenlight in Ontario — albeit in a limited capacity.

Meanwhile, Canadian leaders are working hard on a recovery plan. Recent reports indicate that Justin Trudeau is working with former Bank of Canada governor Mark Carney on a path forward. Undoubtedly, this will carry a large price tag. The COVID-19 pandemic has wreaked havoc on the global economy. In order to avoid catastrophe, governments will likely need to employ aggressive fiscal and monetary tactics. Moreover, Canada has performed well in containing the COVID-19 outbreak in comparison to its allies.

The vaccine race: Could it prevent or cause a market crash?

The COVID-19 vaccine race is well underway, and already experts are predicting that there will be widespread distribution of some kind by the middle of next year. Any major setbacks could kick off a market crash. However, many top companies, including **Moderna** and **Pfizer**, have reached trial phases two and three. A breakthrough in the months to come would have a significant impact on markets and investor outlook. As it stands today, there is reason for cautious optimism.

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aocallaghan