



WARNING: Warren Buffett's Just Gave Another Signal for a Market Crash

Description

The world's most renowned investor Warren Buffett's recent moves appears to be indicating a terrible economic slowdown and a market crash. On August 31, Buffett's investment firm **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) revealed in a [press release](#) that it recently acquired slightly more than a 5% stake in five Japanese top trading companies.

Is Warren Buffett turning more conservative?

After the news, shares of Berkshire Hathaway reached its highest intraday level since February 27. While the stock has risen by 11.4% in the last month, it's still down by 3.7% on a year-to-date basis.

It's important to note that Berkshire Hathaway dumped the shares of airline companies in the second quarter and has been cutting its position in bank stocks lately. In 2020 so far, the investment company has also refrained itself from making many very big acquisitions or investments.

Possibilities of economic slowdown and a market crash

In the first quarter, the COVID-19 crisis started taking a big toll on investors' sentiments across the globe. The pandemic-related closures brought many businesses to the verge of collapse. As a result, the **S&P/TSX Composite Index** fell by 21.6% in the first quarter. This massive sell-off reminded investors of the 2008 stock market crash. Back then, in the fourth quarter of 2008, the TSX Composite lost 23.5%.

Despite continued fears of the prolonged pandemic, the market has showcased a remarkable recovery in the second and third quarter. However, it doesn't necessarily mean that the global economy has suddenly shown massive improvements.

Contracting major economies

In the second quarter, U.S. gross domestic product tumbled by 31.7% — marking its worst-ever decline. Similarly, Canada's GDP fell by 38.7% (annualized rate) in Q2. During the same quarter, Japan's GDP also contracted by a record 27.8% annualized rate. Nonetheless, Japan's GDP contraction rate was still better as compared to other major economies — including the U.S., Canada, and Germany.

Fears of a weakening U.S. dollar could be one of the reasons why Buffett's investment firm might have chosen to invest in Japan as it could serve as a hedge against depreciating the U.S. dollar.

More clues from the Canadian banking sector

Last week, major Canadian banks — **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) reported their latest quarterly results.

Royal Bank of Canada's adjusted EPS fell by 1.3% in the third quarter of fiscal 2020, while its revenue rose by 12.9% year over year (YoY). RBC's net income from the capital market segment rose by 45% YoY. In contrast, its bottom line from other major segments such as personal and commercial banking, wealth management, and investor and treasury services tanked in Q3.

Similarly, Canadian Imperial Bank's revenue remained nearly flat as it reported a 12.5% YoY drop in its adjusted EPS in Q3. CIBC's latest earnings (just like RBC) were highly dependent on the capital market segment volume — which might not remain at these high levels in the coming quarters.

Both CIBC and RBC gave a disappointing outlook for the Canadian economy for the coming quarters with high unemployment rates, lower consumer spending, and lower demand for the most credit products. It's important to note that their high dependence on a single business segment (capital markets) significantly increases their risk profile. That's why I've been suggesting [investors to stay away](#) from the banking sector lately.

Is the market crash imminent?

During their earnings week, shares of RBC and CIBC rallied by 3.2% and 6.3%, respectively. I believe it would be difficult for these banks to hold the gains for long as the slowing economy could trigger a sharp market sell-off at any time —and possibly much worse than what we saw earlier this year.

Also, Buffett's recent moves might be pointing to the possibility of an upcoming market crash. By refraining from making many major investments lately and investing in Japanese trading firms, he's likely preparing for an expected crash. You should also start preparing for it now by diversifying your stock portfolio.

CATEGORY

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3. NYSE:CM (Canadian Imperial Bank of Commerce)
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