MARKET CRASH 2.0: The Terrible Market Sell-Off I've Been Warning You About Is Here

Description

The Canadian stock market turned negative on Thursday — erasing all its gains seen in the first two days of September. At 11:30 AM ET, the **TSX Composite Index** was down by 1.5% for the day. This could just be the start of another big market crash in 2020 — the nightmare that I've been warning about for many weeks.

The key U.S. indexes were trading with massive losses today — possibly culminating their five-month-long sharp recovery. At the time of writing, **Dow Jones Industrial Average** was down by over 2% for the session, while the **S&P 500 Index** — which posted its all-time high yesterday — was trading at a nearly 3% loss.

Market crash 2.0 is here

In February, the global spread of coronavirus started taking a toll on global investors' sentiments. In the following month, fears about slowing economic growth — due to the pandemic led closures — triggered the worst stock market sell-off since the 2008 recession.

At the time, no expert was predicting the kind of sharp recovery that the market has witnessed in the last few months.

In many of my recent articles, I've argued that the recent market recovery doesn't necessarily reflect the real picture of the global economy. In contrast, such a recovery could make the situation worse by creating a stock market bubble that might burst anytime. And my nightmare about another big market crash in 2020 seems to be coming true.

Why are stocks falling?

Multiple factors might have caused today's massive stock market losses. To begin with, the COVID-19 crisis is still lurking around, and a recent rise in new cases in many Canadian provinces and in many

U.S. states proves that it's still far from over. It could play a big role in another big stock market sell-off.

The prolonged pandemic is likely to hurt sectors across Canada, including banking, retail, and consumer discretionary. For example, top banks such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) — which released their quarterly reports in the final week of August — gave a very grim outlook for the economy.

In its latest quarterly earnings report, RBC — the largest Canadian bank — forecasted that "weak business and consumer confidence is expected to keep GDP well-below year-ago levels by the end of the calendar year." CIBC also gave a similar weak economic outlook in its report.

While RBC reported a nearly 12% YoY increase in its latest quarterly revenue, it was mainly driven by a rise in its capital market segment volume. In contrast, both RBC's and Canadian Imperial Bank's core banking operations disappointed and didn't showcase any sign of a near-term strong recovery. The total revenue of CIBC fell by 0.5% YoY in Q3, and its adjusted earnings fell by nearly 13%. Despite a rise in the bank's capital market segment, its core banking segment performed as badly as RBC's personal and commercial banking segments.

The shares of both these banks are trading with over 3.5% year-to-date losses. Now, the prolonged pandemic could send their stocks spiraling even lower — adding fuel to the broader market turmoil.

Don't get trapped in the market turmoil

If you're one of those investors who have been ignoring the real underlying weakness in most companies' fundamentals, then you should start diversifying your stock portfolio right now. This is high time when you should consider including some stocks in your investment portfolio that didn't rally much, despite a sharp market recovery in the last few months.

Many such undervalued stocks might not be as affected by the second market crash in 2020, as other stocks that rallied in the last few months without any major improvement in their fundamentals.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)

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