Stock Market Rally 2020: 3 Factors That Could Ruin the TSX Party

Description

Canadian broader markets took a breather from the weeks-long rally and lost almost 4% last week. **TSX** stocks have soared approximately 50% since the pandemic lows in March, marking one of the epic recoveries of all times. So, how are stocks placed for the future? Is the near-term weakness the harbinger of a long-awaited crash?

Let's discuss what could spoil the TSX stocks' party.

default watermark

Shopify stock takes a pause

With yet another solid rally this year, **Shopify** (TSX:SHOP)(NYSE:SHOP) stock became the most valuable company on the TSX. Fascinatingly, it has returned approximately 4,000% since its listing in May 2015.

Tech stocks have undeniably stood tall amid the pandemic, mainly contributing to the broad market rally. Canadian investors have comparatively lesser alternatives in the tech sector as against the south of the border. Thus, Shopify became their obvious choice, further fueling its stock price.

According to *Bloomberg*, Shopify's rally has added 4.5% to the TSX Index's return so far in 2020.

However, being the largest component of the **S&P/TSX Composite Index**, Shopify's weakness could notably weigh on the Canadian broader markets. The tech giant has been running well ahead of its financials for the last few years. Valuation concerns might hinder its rally, at least in the short term, and might pull Canadian markets lower.

Even if the Shopify stock exhibits near-term weakness, that does not make it a bad investment. The stock could emerge even stronger after the correction, driven by its solid financials and the booming e-commerce industry.

The second wave of the virus outbreak

The second wave of the outbreak poses another serious threat to global stocks. Though it is still in the nascent stage, the second wave might wipe off the last four to five months' recovery — both on the economic as well as on the healthcare front. It will likely dent gradually healing sentiment among consumers and slow down business activities further.

Positively, Canadian authorities have been relatively successful in mitigating the second wave so far, as compared to the United States. In case of the second wave, the economic recovery might take a pause, but it might not fall to lows, as seen during the peak of the infections in the second quarter. This could lead to an interim stock market weakness.

Government stimulus and the stock market rally

Another factor that drove markets higher recently was government aid. Almost all major economies announced hefty stimulus packages to fight the pandemic. Many of them are coming to an end, and market participants are expecting more. So, any disappointment on that front will likely weigh on stocks in the short term.

default watermark

So, how do you tackle market uncertainty?

High-quality dividend stocks would be great investments in such a situation. Long-term investors should consider top utility stock **Fortis** (TSX:FTS)(NYSE:FTS). Even in case of a recession, utilities like Fortis generate stable earnings and, thus, pay stable dividends. It is expected to pay a dividend of $1.91 per share in 2020, indicating an annualized yield of 3.6%.

Although stocks like Fortis might not create massive wealth in a shorter time span, they will provide unmatched stability to your portfolio. Also, their lower correlation with broader markets generally helps outperform during volatile times.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:FTS (Fortis Inc.)
4. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/09/09
Date Created
2020/09/08
Author
vinitkularni20

default watermark

default watermark