



## 3 Reasons Another Market Crash Is Coming

### Description

The **S&P/TSX Composite Index** climbed 37 points to close out the week on September 11. Canadian stocks have broadly performed well since the market crash in the late winter and early spring. However, the TSX has experienced downward pressure in the first weeks of September. Investors should not endeavour to time the market, but it is wise to keep up with ongoing trends. That way, you can tweak your portfolio accordingly. Today, I want to look at three reasons a market crash may be imminent.

### Market crash: Warren Buffett's favourite indicator flashes red

Last month, I'd discussed the [Buffett Indicator](#). This takes the combined capitalizations of publicly traded stocks worldwide and divides it by global gross domestic product (GDP). The indicator moved to 130.9% last week — up from 123.3% in the previous quarter. This suggests that global markets are overvalued and that a market crash or correction may be imminent.

Warren Buffett came out of the 2007-2008 financial crisis and subsequent market crash in great shape. He has garnered a reputation as an investing legend for his wise moves and unbridled optimism. That is why it is notable that he has remained cautious after a sharp market correction earlier this year. Storm clouds may be on the horizon, and it is usually unwise to ignore the behaviour of a man like Buffett.

### Troubling signs ahead of the U.S. election

The 2020 United States presidential election has pitted the incumbent, Republican Donald Trump, against Democratic nominee Joe Biden. As it stands today, Biden is enjoying a healthy lead in national polls and in several key battleground states. However, traders are betting on a chaotic outcome. A contested election has the potential to spark a market crash.

Futures contracts that track the Cboe Volatility Index (VIX), which are set to expire after the election, are holding at elevated levels. **JPMorgan** analysts added that "credit market participants are

increasingly pricing in the odds of election results being unclear by November expiry.”

In July, I'd discussed stocks that were [worth watching](#) ahead of the key election. **TD Bank** did not make the list, but the Canadian bank boasts a huge footprint south of the border. In the event of a market crash spurred by political instability in the U.S., TD Bank could take a bigger hit than its peers.

## Market crash: An economy still in deep crisis

Canada has managed to steadily add jobs in the summer months. The unemployment rate surged to levels not seen since the early 1980s, but a reopening economy has eaten into this troubling statistic. Unfortunately, Canadians cannot rest easy in this uncertain environment. Canada's second-quarter GDP posted a record drop due to the COVID-19 pandemic. Meanwhile, trouble is on the horizon for the service sector as the weather cools.

Restaurants reliant on patio space are prepping for crisis ahead of the fall and winter months. Only fast-food operators like **Restaurant Brands International** have managed to stay mostly in the clear in this sector. A second collapse in the service sector could stir pessimism that would contribute to another market crash. Bank of Canada governor Tiff Macklem recently said that many will still face permanent layoffs due to the pandemic.

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