MARKET CRASH 2.0: Panic Reigns as Stocks Slide in September 2020

Description

This week, the September stock market crash resumed after initial gains on Monday and Tuesday. On Wednesday, the TSX slid 0.83%, led by tech stocks like **Shopify** (TSX:SHOP)(NYSE:SHOP). Futures, meanwhile, pointed to a negative open on Thursday.

So far, this week's price movement is consistent with what was seen earlier in the month. Tech stocks are sliding, while "beaten-down" industries like airlines are rallying. The momentum has been bad for stocks as a whole, as tech now makes up an outsized proportion of overall public market cap. Nevertheless, this selloff has not affected all stocks equally, and it's worth exploring where the value resides today.

Once again, tech leads the plunge

Tech was the clear driver of the stock market losses on Wednesday, as the NASDAQ fell 1.5% compared to a 0.13% gain for the Dow. The Dow is an unusual index that has less tech exposure than the other commonly followed indexes. Hence its outperformance in the midst of a tech-driven slump.

As I've written in past articles, valuation concerns appear to be the main culprit behind the tech selloff. In the aftermath of the COVID-19 market crash, investors scrambled to get into stocks seen as immune to the pandemic. After a series of high-profile earnings beats, tech seemed like the obvious place to go. That made sense initially. But eventually it got to the point where the NASDAQ was up 33% for the year in the midst of mass unemployment and business closures.

While Q2 tech earnings were solid, the recession would have to hit tech stocks eventually. For example, business closures would adversely impact the ad spend that social media sites depend on. So, while tech may have fared better than other industries, it was never "immune" to the recession. Therefore, valuations that assumed continued record-breaking growth at big tech firms began to look unrealistic.

An example

To illustrate how inflated tech stock valuations got immediately after the COVID-19 market crash, we can look at an example: Shopify.

In early September, SHOP had become one of the most expensive stocks in the world. Trading at over 70 times sales and 30 times book value, it had reached a truly scary valuation. Sure, it was fresh out of its best quarter ever, with 97% revenue growth and positive GAAP earnings. But it had the wind at its back in Q2. Retail business closures actually benefited e-commerce companies like SHOP, as they sent consumers shopping online in record numbers.

That was never guaranteed to continue. Eventually, retail businesses started re-opening. And besides, really drawn-out unemployment would eventually impact e-commerce, even with retail shut down. So, while SHOP did benefit from COVID-19 initially, it wasn't enough to justify the kind of price tag the stock eventually commanded.

By contrast, traditional stocks began to look like bargains. If you take a company like **Air Canada**, for example, its business was an abject disaster during the lockdowns. But having declined over 60%, its stock started to look cheap. Even though it fared much worse than Shopify as a business, investors came to see value in it. Whether they're right remains to be seen, but this kind of thinking is what's been driving stock market momentum in September.

CATEGORY

1. Coronavirus
2. Investing
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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

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1. Business Insider
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