



## Warren Buffett: A Financial Storm Is Brewing

### Description

The stock market crash 2.0 [is in the making](#). The **TSX Composite Index** is surging to new highs, while the economy witnesses its worst unemployment and gross domestic product (GDP) contraction since the 2009 financial crisis. The stock market rally hinges on the back of another fiscal stimulus package and the announcement of a coronavirus vaccine. If neither of the two materializes by the end of this year, the financial storm is inevitable.

Initially, I believed that the second stock market crash would not materialize, as the overall stock market has changed. The tech stocks form a major portion of the stock market, and their contribution is to the global GDP, and not just a country's GDP, which inflates their stock price. After diving deeper into the economics of how money works, I am convinced that the financial storm is inevitable.

### A financial storm is brewing

The government released \$82 billion in direct stimulus and distributed this money to Canadians in the form of unemployment benefits and wage subsidies. This increased the disposable income in the hands of individuals. They invested this stimulus money in the stock market, especially tech and gold stocks. Until now, things are going great. Now comes the next phase of the fiscal stimulus.

The Justin Trudeau government announced another \$37 billion in direct stimulus for the next 12 months. This stimulus package is lower than the previous \$82 billion, but the number of beneficiaries is also reduced. As the free money from the stimulus package reduces, retail investors might withdraw their investments to pay for their living expenses. A glimpse of this correction was visible in early September, when the TSX Composite Index fell by 4.4%.

However, the financial storm has been contained in the hopes of a new vaccine. The month of September and October will test investors' reaction to the new stimulus package. What is interesting is that retail investors are buying stocks using high-frequency trading apps like Robinhood, while billionaire investors sit on the sidelines and watch. George Soros and Warren Buffett have been selling stocks instead of buying in the market rally.

## What is causing this financial storm?

The fiscal stimulus package has averted the financial storm for some time, but it has not prevented it. The stimulus package has increased the government's fiscal deficit by 1,000%. There are concerns that the taxpayers' money used in these packages will lead to austerity measures like reduced government spending and increased taxes. These measures will negatively impact GDP growth, leading to a recession.

However, a [report by CIBC](#) showed that the current benefits would not reduce future government spending and taxes. The government is funding the stimulus package by issuing 10-year Treasury bonds at just a 0.6% interest rate. The record-low interest rate means that the interest will compound slower than the GDP growth. If the government just refinances its debt every 10 years while the GDP grows, its debt-to-GDP ratio will reduce. This shows that the economy will recover in the long term.

## Warren Buffett in the stock market

The market is very uncertain at the moment. The after-effects of the fiscal stimulus package will impact the stock market in the short term, but the market will grow in the long term, and so will the economy.

You can invest in **iShares S&P/TSX 60 Index ETF** ([TSX:XIU](#)). It gives you exposure to the top 60 stocks on the Toronto Stock Exchange. In the recent stock market volatility, the ETF has declined 1.7% but has surged 20% in three years and 40% in five years. The XIU ETF will diversify your portfolio and grow it along with the market.

The XIU ETF has 32% holdings in financials and 10-15% holdings in energy, materials, and technology. At present, the financial sector has taken a hit from the pandemic. When the economy recovers and bank stocks surge, the ETF will also surge because of its high exposure to the financial sector.

### CATEGORY

1. Bank Stocks
2. Coronavirus
3. Investing
4. Metals and Mining Stocks
5. Tech Stocks

### TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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## **Author**

pujatayal

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