Stock Market Crash 2.0: The September Sell-off Accelerates

Description

North American stock market indexes tumbled on Monday, continuing a brutal September for stocks. The **S&P**, **TSX** and **Dow Jones** all posted losses; the TSX slid 1.34% by the end of the trading day.

For weeks, tech stocks led the selloff in North American markets. On Monday, that was less the case. Most of the day's biggest losers were energy stocks and cruise lines, resembling the moves seen in the first COVID-19 market crash.

Fears of a slower economic recovery

A slowing economic recovery forms the backdrop of September's market losses. Shortly following the COVID-19 lockdowns, the economy began to recover. Lost jobs were re-gained and corporate profits began to rise. Broadly, these developments continue today. But the pace of recovery is slowing.

According to StatCan, Canada added 246,000 jobs in August. That's down from nearly a million jobs added in June. Going by this data, the jobs situation is still improving, but the progress is slowing.

It's been a similar story in the United States. At one point, the U.S. added 4.5 million jobs in a single month. By the most recent report, it was down to 1.37 million. While 1.37 million jobs gain is solid, it's less pronounced than earlier gains.

Tech stocks feel the pain

Tech has been one of the biggest culprits in the September 2020 market crash. Broadly, tech stocks like **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) have led the decline, while traditional industries have fared better.

That's less the case today. On Monday, cruise lines and energy stocks got hit the hardest. Oil has been tanking thanks to accumulating diesel inventories, while cruise lines and airlines still can't operate normally. These factors led to bigger losses in traditional industries than in tech. However, tech is still being hit. By the end of trading on Monday, the **NASDAQ** was down 0.13%.

That's not surprising. A lot of tech stocks had reached unbelievable valuations in early September. Shopify famously reached a point where it was trading for more than 70 times sales, and 400 times forward earnings. You'd expect a situation like that to result in a crash eventually. And the tech scene is home to other companies in the same boat. **Tesla**, **Facedrive** and **Draftkings** come to mind.

None of this is to say that these stocks are bad long-term investments, however. Some are actually great companies. Shopify, for example, had incredible revenue growth of 97% in its most recent quarter. But when you've got stocks trading at 70 times sales (SHOP) and 1,000 times earnings (Draftkings), a correction is all but inevitable.

Foolish takeaway

It's beginning to look all but certain that September will be a losing month for North American markets. With tech continuing to sell off and energy once again feeling the squeeze, the heat is on. If the losses continue, some will panic, others will buy the dip. One thing is certain: in today's market, it's wise to tread carefully.

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