WARNING: Will a 2nd Wave of COVID-19 Crash the Market?

Description

Earlier this month, I discussed why it looked like more market turbulence was on the way in 2020. Pardon the cliché, but I may have overlooked the elephant in the room. The COVID-19 pandemic is still confounding governments around the world. Canada's economy has suffered some of the worst declines in activity since the Great Depression. Now, policymakers are warning about the onset of a second wave of the outbreak.

Should investors be worried about this second wave triggering yet another market crash? Let's examine some of the risks facing investors in the weeks ahead.

Why the government is shifting COVID-19 strategy

In March, Canada followed much of the developed world and erred on the side of extreme caution. Provincial governments instituted lockdowns that saw workplaces shut down across the country. Millions were put out of work in the devastated service sector. There are indications that provincial governments may adopt a more focused strategy that deviates from their broad application earlier this year.

What does that mean? Premier Doug Ford has hinted at a regional approach to containing COVID-19. That means that areas where cases are spiking could be subject to more draconian lockdown measures. Meanwhile, regions that are experiencing less case activity will be able to move forward with more relaxed regulations. In any case, Ontario projects that the second wave of COVID-19 will "peak" in October.

On the national level, there are also indications of a more sustainable path forward. Prime Minister Justin Trudeau's Throne Speech explicitly stated that shutdowns to check the spread of COVID-19 would be "short-term" and limited to the local level. He added that health officials "know the devastating economic impact a lockdown order can have."

Other risks for the stock market in the next few months

Back in the spring, I'd warned Canadian investors about high valuations on the **TSX**. Stocks continued to build momentum into the summer. However, there have been signs of a return to volatility in the beginning of fall.

Canadians should watch out for stocks that have thrived in the face of the COVID-19 pandemic. **VieMed Healthcare** is a stock that put together a huge spring and summer. It raised its guidance and it benefited as a supplier of in-home ventilators. The company expects to continue its strong performance for the rest of the fiscal year. However, shares have dropped 20% over the past month.

On the other hand, stocks like **Air Canada** have been pulverized by the pandemic. Unfortunately, these renewed concerns will not bode well for the airline industry in the near term. Air Canada stock dropped 5.2% week-over-week as of close on September 25.

How should investors respond to COVID-19 fears in the fall?

It may be wise for Canadian investors to take profits in top stocks that have surged in the spring and summer. Meanwhile, it is a good idea to look to dependable dividend stocks like **Fortis**. Moreover, grocery retailers proved their reliability when the COVID-19 pandemic first hit. It might not be a bad idea to stash huge grocers like **Loblaws** in your portfolio right now.

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