WARNING: October Sell-Off Could Be Worse Than September Market Crash

Description

The broader market continued to trade on a negative note last week, marking the second consecutive week with losses for the **S&P/TSX Composite Index**. The index lost 0.8% in the last week. With this, the TSX benchmark has shed nearly 2.7% in September. The second wave of the COVID-19 pandemic continues to hurt investors' sentiments.

Many negative factors could intensify the ongoing market sell-off in October. Let's take a closer look.

The upcoming earnings season

As October approaches, it's time for investors to get ready for Q3 2020 earnings season. According to the latest FactSet estimates, the third-quarter earnings season wouldn't have much for investors to cheer about. Its estimates suggest an over 22% decline in America's S&P500 earnings. If this turns out to be true, it will mark the second-largest year-over-year (YoY) earnings drop in S&P500's quarterly earnings since the second quarter of 2009 — when a multi-year recession wreaked havoc on the market.

The story for corporate Canada will not differ much, as many Canadian firms are still struggling with the prolonged pandemic. This struggle is likely to reflect in their third-quarter results.

Weaker-than-expected earnings are likely to hurt investors' sentiments and intensify the broader market sell-off.

U.S. elections

The upcoming U.S. elections are likely to keep the global markets highly volatile in the next couple of months. Businesses, including U.S. electric car companies, could benefit if the democratic candidate Joe Biden wins the election.

The possibilities of Donald Trump's re-election could also fuel investors' fear of continued U.S.-China trade tensions. It could lead to a market crash in October.

Rising COVID-19 cases

In the last couple of weeks, the pandemic seems to be stretching its arms in Canada again with the second wave of COVID-19. The pandemic has already taken a big toll on businesses across North America. A prolonged coronavirus second wave could hurt them further and trigger a stock market sell-off.

Don’t get trapped in the market crash

It’s high time investors start adjusting their investment portfolio to avoid getting trapped in the October market crash. If your investment portfolio highly relies on a couple of specific industries and sectors, you should diversify it right now by adding stocks with good long-term growth prospects from other industries.

Fortunately, Canadians have opportunities in the market, as many good Canadian companies still don’t seem to be as overvalued as most U.S. companies. For example, the shares of **Royal Bank of Canada** (TSX:RY)(NYSE:RY) — the largest Canadian bank — are still down by about 5% on a year-to-date basis, despite its better-than-expected latest quarterly results.

In the third quarter of fiscal 2020, RBC reported $ 12.9 billion in revenue — up to 5% on a YoY basis and 13% better than analysts’ expectations. While its earnings for the quarter slightly fell by 1.3% YoY, they were still 24% better than analysts’ consensus estimates.

Despite a temporary drop in its income from its core banking operations due to the pandemic, Royal Bank of Canada’s overall long-term growth prospects remains intact.

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