3 Reasons the Stock Market Won’t Crash Despite the 2nd Wave

Description

Investors vividly remember the stock market crash of early 2020. When panic set, investors dumped their stocks at a historic pace. Since then, stocks have mostly regained lost ground. Now, some are trading higher than before the crisis. However, a second wave of COVID-19 cases is officially upon us. Will stocks crash again?

Here are three reasons why I believe we could avert another stock market crash, despite the steady rise in cases across the country.

Expectations

While the stock market is a weighing machine in the long term, it’s a voting machine in the short term. Investor expectations and emotions play a critical role in stock market performance. Back in February, investors were more bullish and optimistic about economic prospects than ever before. A sudden pandemic dashed these expectations and caused chaos.

Now, most investors expect another wave of COVID-19 cases. In fact, savvy investors know this crisis could linger for years until an effective vaccine is developed. These lower expectations have been built into stock prices. That makes another stock market crash less likely.

Dual-speed recovery

We now know that some industries perform surprisingly well during a pandemic. Online shopping platforms like **Shopify** saw record-breaking growth when everyone was confined to their homes. Meanwhile, retail landlords like **Morguard** saw their stocks eviscerated.

Brick-and-mortar stores, commercial landlords, and entertainment companies still haven't recovered from the crisis. Meanwhile, tech, healthcare, and software stocks are tearing a hole in the roof. Investors now know that another wave of COVID-19 will bolster this trend. That's why another stock market crash is unlikely.

Stimulus

Back in March, no one knew if the government would ever step in to rescue the economy. Now, we know the government is willing to borrow *ad infinitum* to support Canadian businesses and households. That puts a floor on stock prices.

Meanwhile, millions of Canadians have spent months collecting thousands of dollars in benefits and spending very little, as shops and bars remained closed. In the second quarter of 2020, Canada's personal savings rate reached an all-time high of 28.2%. Much of that cash has been invested in the stock market.

This creates a double-whammy that should elevate stock prices for the foreseeable future.

Where to invest

If you agree with most of the points I've made above, you're probably considering a fresh investment. In this environment, I would argue that your best bet is either a beaten-down stock with rebound potential or a reasonably priced growth stock.

Enbridge (TSX:ENB)(NYSE:ENB) is an example of the former. The stock is down by more than 24% year to date. Investors are worried about the energy sector in general, as demand falls off a cliff. However, Enbridge has plenty of cash to survive this crisis.

The company is also an infrastructure provider rather than a producer. This means most of its revenue is locked in by long-term contracts. That gives the management enough visibility to plan ahead. It's probably why they've decided to hold the dividend yield steady at 8.3%.

As we head into winter, demand for natural gas should recover to its seasonal high. That could be a catalyst for this beaten-down value stock.

Meanwhile, luxury retailer **Canada Goose** is my top pick for a "reasonably priced growth opportunity." Keep these on your list if you think another stock market crash is unlikely.

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