Warren Buffett: A Market Crash Is Inevitable!

Description

The second wave of COVID-19 infections is sweeping across North America and Europe, making investors and individuals extremely nervous. The markets slumped close to 36% in just over a month during the first COVID-19 wave in early 2020.

As businesses were shut, consumer spending dropped significantly which meant a spike in unemployment rates and a drastic fall in global GDP numbers. The snap-back rally in equity markets since March has surprised analysts and experts. However, several financial gurus, including Warren Buffett, believe the market rebound is not sustainable and we should brace for another market crash.

There are also near-term uncertainties that will weigh on markets, including a closely watched presidential election south of the border as well as another round of economic shutdowns (possibly).

One of the easiest ways to gauge if the markets are overvalued is by using the market cap-to-GDP ratio, which is also known as the Warren Buffett Indicator. So, if this ratio is over 100%, we can conclude that the markets are trading at a premium and vice versa. Currently, the S&P 500 is trading at a market cap-to-GDP multiple of 179.5%, indicating that it is significantly overvalued.

Buy this Warren Buffet gold stock and hedge your bet

It is impossible to time a market crash. It can happen in the next month or even the next year. Further, a market crash should be viewed as a buying opportunity, and investors should be ready with dry powder to buy stocks at a discount.

Alternatively, you can also hedge your bets and buy recession-proof stocks such as **Barrick Gold** (TSX:ABX)(NYSE:GOLD). The Oracle of Omaha recently bought close to 21 million shares of Barrick Gold, according to **Berkshire Hathaway's** recent 13F filings.

Gold prices move in opposition to the stock market. Further, as interest rates are nearing record lows, there are not many alluring investment avenues left, making gold stocks even more lustrous.

The billions of dollars spent by federal governments to help individuals and businesses amid COVID-19 has also weakened the U.S. dollar, which is another key driver for gold prices that are trading at US$1,906 per ounce.

Shares of Barrick Gold have returned close to 50% in 2020 and 256% in the last five years. Despite its stellar returns, Barrick Gold stock is trading at a forward price-to-earnings multiple of 26, which is really attractive given its earnings are forecast to double in 2020 and rise by 40% in 2021.

Rising gold prices remains a key driver for mining companies. In Q2, Barrick's gold production was down 15% year over year. However, its revenue soared 48% to $3.1 billion, primarily driven by bullish gold prices.

What's next for investors?

There is a chance that gold prices might reach US$2,200 per ounce by the end of 2020 and touch US$2,400 in the next 12 months, according to a **Citigroup** report. Barrick's all-in sustaining costs are around US$970 per ounce, which means it has a significant opportunity to increase profit margins if gold prices touch US$2,400.

Analysts tracking Barrick Gold have a 12-month average target price of US$34, which indicates upside potential of 26%.

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