MARKET CRASH: Stocks Tank Amid COVID Surge and U.S. Election

Description

Stocks tanked on Wednesday, as news broke that France had imposed a new nationwide lockdown. Markets had previously been jittery amid U.S. election and second-wave concerns, but yesterday took things into high gear.

All major North American indexes took a dip. In no particular order, here are the declines:

- **The Dow:** Down 943 points, or 3.43%.
- **The TSX:** Down 434 points, or 2.7%.
- **The S&P 500:** Down 119 points, or 3.53%.
- **The NASDAQ Composite:** Down 426 points, or 3.73%.

Today, many investors' portfolios are hurting from yesterday's bloodbath. The question is, why did it happen?

Why stocks fell on Thursday

There are three plausible theories that could account for the beating the market took yesterday:

1. **The second wave:** COVID-19 cases are rising throughout the Western world, and just yesterday, France became the first country to re-impose a nationwide lockdown.
2. **The U.S. election:** The vote is just days away, and some are predicting instability in the aftermath of what could be a contested election.
3. **Tech earnings:** Several major tech stocks report today, and not everybody is convinced the results will be good. So far, big tech has avoided the worst of the COVID-19 damage we've seen this year, but eventually prolonged unemployment will probably impact online ads and e-commerce. The theory that tech earnings concerns drove the crash is supported by the fact that the NASDAQ fell more than any other index.

Airlines: No hope for recovery

Regardless of what caused yesterday's market crash, there is one industry that's in serious trouble: airlines.

Tech stocks could walk off their losses if earnings are good today. Airlines, however, are pretty much guaranteed to have a terrible third quarter. With France re-imposing lockdowns, it looks unlikely that international travel will recover soon. That's bad news for **Air Canada** (TSX:AC), which can't get back to its pre-COVID revenue levels with just limited domestic flights.

So far this year, Air Canada has lost billions of dollars, had its revenue decline 89%, and slashed 90% of its flights. The news from France suggests that this picture won't be improving in 2020. Even within Canada, demand for air travel is way down because of 14-day self-isolation orders. International travel is in a worse position still. Just recently, the E.U. took Canada of its permissible travel list over COVID concerns. Now it looks like France won't be taking travelers from *any* country without mandatory self-isolation.

In this environment, you'd be well advised to avoid airlines and cruise stocks. If you have a well-diversified portfolio with hundreds of stocks, perhaps having airlines in the mix at a small weighting could make sense. But this is no environment to put a large chunk of your net worth into travel stocks. The risk factors have been immense all year, and they're only growing.

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andrewbutton