



The TSX Composite Index Fell Almost 5%: Is the Stock Market Crash 2.0 Here?

Description

For a long time, billionaire investors like George Soros and Warren Buffett have been saying that a second stock market crash is in the making. The **TSX Composite Index** surged 30% between April 1 and September 1 after falling 34% in March. The market crashed when the COVID-19 pandemic struck, and the market rallied on the back of the government stimulus package.

There were fears that the second wave of pandemic after the reopening of the economy would repeat the March sell-off. These fears are materializing. The increasing COVID-19 cases in the U.S., Canada, and Europe are recreating conditions of a lockdown. But this time, there won't be a complete nationwide lockdown but tighter travel restrictions. Governments are better prepared to handle a coronavirus outbreak than they were in March.

Is the stock market crash 2.0 here?

George Soros stated that the free money coming from the fiscal stimulus package created a liquidity bubble, which drove stock valuations to new highs. When the valuations are high, there is more downside than upside.

The stock market was already bearish when the Canada Revenue Agency (CRA) delayed Canada Recovery Benefit (CRB) payments because of a technical glitch. The liquidity coming from the stimulus package was drying up. The COVID-19 resurgence accelerated the bearish tone. The TSX Composite Index has fallen 4.7% in the last three trading days and 6.2% in 13 trading days. In the March-sell off, the Index fell 11.8% in three trading days and 18.7% in 13 trading days.

The potential of another wave of pandemic hurt **Air Canada** ([TSX:AC](#)) and **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) the most. Their stock prices fell 11.6% and 10.2%, respectively, to their March lows. Even virus stocks like **Shopify**, **Lightspeed POS**, and **Kinaxis** dipped single digits this week.

Companies are releasing their third-quarter earnings. The TSX Composite Index decline was partially offset by earnings surprises. For instance, better-than-expected third-quarter earnings sent **RioCan REIT** stock up 2.46%.

Stocks in the red

AC and Suncor are already struggling with sluggish air travel and oil demand. Another wave of tighter restrictions dampened any hopes of a recovery this year. The stock price momentum of AC and Suncor was range-bound since the pandemic. The recent dip pushed their stock prices to the lower end of their price range. AC stock has found support at \$15. But Suncor stock lost its support and fell below \$15. [Warren Buffett](#) exited airline stocks but retained his investment in Suncor in April.

A prolonged sector weakness leads to consolidation. The oil and gas industry has been in crisis for six years, and the pandemic has made things worse. Moreover, interest rates are near zero, creating an opportunity to acquire companies with strong assets at an attractive price.

The Canadian oil and gas industry saw its first mega-merger; **Cenovus Energy** agreed to acquire **Husky Energy** for \$3.8 billion. Analysts believe that this could be the beginning of a mergers and acquisition supercycle. Suncor is in a far better position than most oil and gas companies because of its integrated business model. Its [third-quarter earnings](#) gave a snapshot of its liquidity, which will help it withstand crisis and operating efficiency that will help it return to profit when the oil price recovers to US\$45/barrel.

The airline industry is already consolidated. It might undergo further consolidation, or some airlines might declare bankruptcy. For instance, AC slashed the **Transat A.T.** bid price by more than 70% to \$190 million. But this deal could fall in jeopardy if AC faces the risk of bankruptcy.

What should you do in this stock market pullback?

The recent dip in the stock market has created an opportunity to buy post-pandemic stocks at discount. Suncor has growth potential, but its growth comes with risks. There are better stocks like **Enbridge** and RioCan, which have dividend yields of over 8.86% and 9.97%, respectively. These stocks are also reporting profits and positive cash flows. The stock market pullback has created an opportunity to lock such high-dividend yields for a lifetime.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Tech Stocks

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:AC (Air Canada)

3. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Tech Stocks

Date

2025/09/11

Date Created

2020/10/29

Author

pujatayal

default watermark

default watermark