These 2 Key Factors Predict a 2020 Santa Claus Stock Rally

Description

Two things predict which way the markets will swing, as we rapidly toboggan towards the winter months. And the good news is that they are both positive. Indeed, while winter is not always known for ebullience in equities, there are reasons to expect a Santa Claus Rally this year.

Hello post-vaccine stock market recovery

Everything is about the election right now. But after the election, everything will switch back to being about the pandemic again. And it will be highly political. Whoever takes the White House will need to quickly produce results on the vaccine front. Whatever happens this week, investors should therefore expect to see a post-election rally in certain key pharma stocks.

But while top players in the Operation Warp Speed space have the potential to rocket, one other asset type could take fire. There's something insidious about any stock that falls with good news. That makes tech stocks like **Shopify** somewhat problematic to begin with. But throw in overvaluation and investors have a crucial stock type to trim from a portfolio.

The upside in the broader markets, though, is likely to be sustained — and it could even see a return of the bullishness that characterized 2019. Investors in 2021 will have to contend with recessionary market forces as well as the international market disruption of Brexit. However, a generalized recovery in equities should boost sentiment. It could be a fairly good December.

Goodbye election uncertainty

The effect on stocks has been predictably choppy. Given how tight this race was, it was still almost impossible midweek to call objectively which party the markets were predicting to win. However, two key indicators stood out: cannabis and banks. Pot stocks were down after the Tuesday night vote, while bank stocks were inching up. Both indicators were flashing red for Republican.

But it was always going to be the case that the election uncertainty would evaporate once the winner was called. No matter one's political preferences, simply knowing who won the election rips the sting out of that stock market opacity. Plans can be made once the facts are known. That makes banks such as **BMO** an intriguing play in their post-earnings afterglow.

From **Scotiabank** (TSX:BNS)(NYSE:BNS) to **TD Bank**, the Big Five financial names offer TSX investors a mix of defensive qualities and long-term passive income. These names are trusty portfolio fillers and fit the bill when it comes to both first-time TFSA users and retirement investing. And given that the banks are looking at a potential wave of earnings beats in the late November to early December period, the bullishness could be bankable.

A post-election, post-earnings lift to bank stocks will offer opportunities to trim these names from an overexposed portfolio. But in the meantime, the current period is fertile ground for Canadian bank value investing. Consider the low market ratios of a name such as Scotiabank, for example. With a P/B just above book price and a low P/E of just 10 times earnings, Scotiabank is cheap as chips.

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