Market Crash 2.0 Warning: Here’s What Could Cause it

Description

It’s been a sweet November thus far for the broader markets, which are continuing to surge amid the reveal of two remarkably effective coronavirus vaccines. **Pfizer** and **Moderna** have vaccines that are reportedly 90% and 94.5% effective, respectively. With the pandemic’s end now in the sight, many folks are more willing to pay higher valuations for the stocks that people were ditching in the spooky final week of October.

Market crash 2.0: Are investors too bullish?

While a favourable U.S. presidential election result (no Blue Wave) and two effective vaccines are something to be bullish about, I’d urge investors not to rule out a potential pullback, as coronavirus cases continue surging to uncontrollable levels across the various parts of the world. There’s no telling how bad this wave could get. The vaccine is still months away, and there are still major question marks with regards to vaccine distribution. Sure, the stock market is looking forward to what’s shaping up to be a better 2021, but it’d be unwise to back up the truck after the stock market’s latest two-week pop.

Many investors are likely going to be in a spot to let their guard down. And as you may know, that’s never a good idea, even if the stage has been set for a remarkable bull run. With markets looking ahead 12-18 months in the future, everyone’s excited about a potential end to the pandemic in 2021, another generous U.S. stimulus package to fight off the economic damage from the second wave, a nice abrupt economic recovery, and maybe, just maybe a potential U.S.-China trade deal with Joe Biden in the oval office.

Looking beyond the COVID-19 pandemic

Once we're on the other side of this pandemic, though, the U.S. Fed could go from friend to foe at the drop of a hat. Sure, many central banks aren't even thinking about raising interest rates at this juncture. Some have committed to leaving rates low through 2022. Once 2021 finally rolls around, though, investors may fear the possibility of rate hikes, and stocks could face another bout of pressure waiting for them after climbing out of the coronavirus crisis.

Rate hikes don't bode too well for stocks. The late-2018 "Fed put" market crash was ugly, and with the increasing likelihood that things will return to normal next year, negative rates look to be off the table. And sooner or later, we could be looking at climbing rates again. Higher rates could pressure the profitability prospects of many firms, and that could keep the stock market from taking off. Fortunately, for stock pickers, there is a way to position oneself for the post-pandemic environment.

Even after the good vaccine news, many Canadian bank stocks are still severely depressed. But I don't think they'll stay down for very long, as investors look to bet on the return to normalcy and another rising interest rate environment that could be in the cards in 2023 and beyond.

TD Bank stock: A perfect entry point for long-term investors fearing the market crash 2.0

With stocks like **TD Bank** (TSX:TD)(NYSE:TD) still off 17% from their highs, I'd say now is a perfect time to be a buyer, while the yield is still on the higher end of its historical range. Sooner or later, investors will move their focus from provisions for credit losses (PCLs) and pandemic headwinds to EPS growth prospects. And once rate hikes become the talk of the town again, the longer-term outlook for the big banks could improve drastically.

Today, TD Bank faces pressure from all ends, with thinning net interest margins and its out-of-favour exposure to the U.S. market. In two years or so, rising interest rates and premium U.S. exposure will make TD Bank a premier bank stock with a higher multiple once again. If you're a long-term investor, I'd look to buy the banks before they fully melt-up and the rock-bottom valuations evaporate in the months that could precede the COVID-19 pandemic's potential 2021 end. Canadian banks like TD, I believe, could be (mostly) spared come a potential market crash 2.0.

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