



Market Crash: Brace Yourself for Another 10% Drop

Description

The stock markets retreated viciously into the close on Wednesday, as the vaccine-driven relief rally ground to a halt. With the **S&P 500 Composite Index** running into another wall in its attempt to break out, investors should brace themselves for another fast-and-furious correction that could bring us right back to the lows touched at the end of the September and October corrections.

Could stocks really be in for a third (near) correction in three months, given November's slate of [incredibly good news](#)? Two COVID-19 vaccines with efficacy rates north of 90% and the better-than-feared U.S. presidential election result are a big deal, as they bring the pandemic's end into sight.

That said, the [S&P 500](#) bounced 11% in around two weeks. If that's not irrational exuberance, then I'm not sure what is. With an ugly technical picture, the threat of another monthly pullback, I believe, is high. But investors shouldn't panic, as the dip is healthy and could be one of the last major buying opportunities of this horrific year — and probably the pandemic.

Don't panic — get ready to bargain hunt instead..

Sell-side analysts are pointing to big gains for stocks in 2021, with **JPMorgan** holding one of the more bullish price targets for the S&P 500 at 4,500. That represents nearly 27% worth of year-ahead upside following Wednesday's breather. In the meantime, coronavirus cases are surging uncontrollably as investors try to balance hope and optimism with the reality of today's horrific situation.

Market crash: Don't expect the bargains to last

Whether or not the markets crash or correct, you should get your buy list ready before all the bargains evaporate once actual earnings have a chance to give this market a new bout of optimism. Consider shares of **Canadian Western Bank** ([TSX:CWB](#)) and **Laurentian Bank** ([TSX:LB](#)), two regional Canadian banks that bucked the trend on Wednesday and are continuing to rally amid renewed vaccine hopes.

Quebec-based Laurentian surged 4.1%, while Alberta-heavy Canadian Western Bank bounced 2%. The past two days of volatility have not been able to stop the two regional banks in their tracks. Both names are still a country mile away from their all-time highs, with valuations that I don't think have fully corrected to the upside, given the encouraging news that flowed in earlier this month.

The pandemic has caused various sectors of the economy to crumble like a paper bag while mostly sparing others. As affected firms become unable to meet their debt obligations, it's the banks, especially those with a high concentration in loans to firms within the hardest of hit industries, that at risk of being left holding the bag.

Deeper value in the regional bank stocks

Both Canadian Western and Laurentian were under pressure well before the COVID-19 nightmare started earlier this year. The pandemic acted as salt in the wounds of the two badly bruised regional banks. With more clarity on the vaccine timeline and improved odds of returning to normalcy in mid-to-late 2021, the most at-risk regional banks, with high exposure to distressed small businesses, may be due to have a massive weight lifted from their shoulders.

CWB and LB stock have been badly battered far worse than their bigger brothers in the Big Six cohort. At their worst, CWB and LB stock were both about 60% away from their all-time highs, which seemed out of reach at the height of the pessimism.

With the stage set for one of the biggest economic recoveries in the record books, CWB and LB, I believe, could be due for much more upside as investors warm up to the two regional banks that were viewed as among the most at-risk in the era of the coronavirus.

Foolish takeaway

At the time of writing, CWB and LB stock trade at 0.9 times and 0.5 times their book value, respectively. As the macro landscape improves in 2021, I'd be willing to bet that any such discounts to book on oversold Canadian financials will vanish.

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TICKERS GLOBAL

1. NYSE:JPM (J.p. Morgan Structured Products B.v.)
2. TSX:CWB (Canadian Western Bank)
3. TSX:LB (Laurentian Bank of Canada)

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Date

2025/07/04

Date Created

2020/11/19

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