Market Crash 2.0: Is the COVID-19 Vaccine Rally Overdone?

Description

The COVID-19 vaccine rally has been nothing short of unprecedented. Late-October fear went to greed in what seemed like an instant thanks to major positives, including the favourable U.S. election outcome (Joe Biden, no Blue Wave) and the incredibly effective vaccine results revealed by **Pfizer**, with **Moderna** following suit with a vaccine of similar efficacy. Since early November, the stock market has been off to the races, and investors are looking through the other side of this pandemic.

While the vaccines (and U.S. election result) are a massive deal that should have moved the needle higher, one has to contemplate at least doing some profit-taking after one of the best months of November in nearly a century (and one of the best months for the stock market in around 33 years). Yes, the sudden upside surge was a long time coming. But with the shot in the arm of the markets beginning to show signs of wearing off amid an uncontrollable surge in COVID-19 cases, I think there's a risk that investors may be discounting the impact of this second wave.

Are 2021 recovery expectations too high?

A 2021 end to the pandemic has grown from a possibility to an expectation. With such high hopes, there's little room for error. While a handful of effective vaccines could pave the way for normalcy in early to-mid 2021 for the U.S., I think Canadians should curb their expectations, as COVID-19 vaccines may not be available for the average Canadian until the latter part of 2021, possibly September, as PM Justin Trudeau suggested last week.

Moreover, if there are logistical stumbles along the way to broader vaccine distribution, herd immunity in Canada may not be reached for far longer than expected, which could weigh heavily on the broader markets, which appear enthused over Health Canada's (likely) imminent approval of Pfizer's vaccine.

There's more clarity with that COVID-19 vaccine timeline, but there are still risks to consider

With potential side effects, the requirement of two doses, and the potential for anti-vaccination sentiment, the stock market is nowhere close to being out of the woods yet. With the potential for negative surprises, I certainly wouldn't rule out a fast-and-furious correction (or market crash) at some point over the coming months, as investors lose track of the horrific near-term reality of the situation.

While the markets are overdue for a correction, I wouldn't encourage excessive selling activity, just a bit of profit-taking if you're up big in COVID-19 recovery names such as **Air Canada**, which has been among the hottest of names over the past month.

It's good to be optimistic and hopeful over the vaccine rollout. Still, it's also vital to be aware of the potential for negative surprises now that sentiment has taken a 180-degree reversal from the spooky month of October that had many hitting the sell button furiously.

Foolish takeaway

With a "double-dip" recession ahead and little clarity on just how much worse the second wave will get, I'd say it's time to take a page out of Warren Buffett's playbook by being cautiously optimistic and not chasing stocks after one of the hottest months in decades. While stocks could continue roaring into year-end, with a potential Santa Claus rally in play, I don't think it's a good idea for investors to let their guards down, even though there's finally something for us to be hopeful about.

Nobody knows when the next market crash will happen or what will cause it. With high hopes (and expectations) and a discounting of the risks that lie ahead, I certainly wouldn't bet against the occurrence of another sell-off before COVID-19 is conquered.

Stay Foolish, my friends.

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