Alert! Don’t Miss the Stock Market’s Snapback Rally in 2021

Description

The Canadian stock market has staged a V-shaped recovery this year. The **S&P/TSX 60 Index** dropped 35.7% between February and March this year. Since then, it has delivered an astonishing 52.8% return, reclaiming all its lost value and then some. Year to date, the stock market is actually positive.

However, this recovery is only part of the story. The stock market could surge much higher in 2021 as underperforming sectors of the economy snap back to normalcy. Here’s what you need to know about this “snapback rally” and the stocks you should focus on.

The stock market’s recovery

When investors panicked, they sold all stocks simultaneously. Every sector of the economy seemed vulnerable for the first few months of this crisis. However, savvy investors quickly realized that certain sectors of the economy were actually benefiting from the lockdown.

Online shops, software giants and digital service providers surged to record-highs. Stocks like **Shopify** are actually trading far higher now than they were pre-crisis. This strong recovery in the tech, healthcare and essential services sector accounts for the V-shaped recovery in Canada’s stock market.

2021’s snapback

However, tangible sectors such as real estate, aviation, leisure and retail are still trading below their pre-crisis levels. There are two reasons these sectors could snapback to normalcy, in 2021: the vaccine and pent-up demand.

With multiple vaccines now being distributed worldwide, it won't be long before you can travel, vacation and dine safely. The gradual reopening of the economy, coupled with months of pent-up demand, will create a windfall of these sectors.

With the government's stimulus measures and mortgage deferrals this year, consumers will also have plenty of firepower to act on their pent-up demand. A culmination of these factors could create a stock market rally in 2021.

Top stocks to watch

Air Canada (TSX:AC) and **Cineplex** (TSX:CGX) could be the best snapback stocks for 2021. Both stocks are trading far below their pre-crisis levels. That's because weak business models have compounded issues for both stocks.

Cineplex and Air Canada both have worrisome debt burdens and are generating little revenue right now. However, next year air traffic could quickly climb back to pre-pandemic levels while studios will rush to release movies in cinemas again. This return to normalcy could make these two stocks perfect for contrarians.

My Fool colleague Ambrose O'Callaghan certainly agrees with me on Air Canada. She says the stock is trading at the middle of its 52-week range. If the vaccine is as effective and distributed as quickly as investors hope, Air Canada stock could jump back to its pre-crisis levels.

Similarly, Cineplex could surge closer to its pre-crisis level if the recovery is underway, according to Adam Othman. Put simply, Cineplex could be the biggest commercial beneficiary of this medical miracle.

Keep an eye on them both as we enter the New Year 2021.

Bottom line

Part of the economy is still suffering from a historic crisis. Retail shops, airlines and cinemas remain subdued. This may be a good time to invest in these beaten-down sectors, before the economic snapback next year.

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