Santa Claus Rally or Stock Market Crash? 3 Top Stocks to Buy Now

Description

With two weeks to go in 2020 investors are wondering if a Santa Claus rally will extend the Q4 surge in stock prices.

Is a Santa Claus rally or a Santa crash on the way?

The Santa Claus rally in 2020 started in early November. Over the past six weeks stock markets soared to record highs, driven by COVID vaccine optimism and relief on US election fears. Euphoric buying of tech Initial Public Offerings has also fuelled the rally. While a continuation could occur through the holidays, it isn't guaranteed.

Joe Biden's election win is now official, which should be positive for traders. At the same time, it looks like Republicans will maintain control of the Senate, although there is still an outside chance the Democrats could pick up two runoff election seats in Georgia on January 5.

If that turns out to be the case, the Democrats and Republicans would each have 50 seats, meaning the incoming Democratic Vice President would be the tie breaker on all votes. Pundits say a split Congress is better for the stock market, so a win of both seats by Democrats in the first week of January could trigger a market pullback.

Even if the Republicans maintain control of the Senate, stock markets could start the year on a downward trend.

Why?

The second COVID wave appears out of control in many regions of the United States, Canada, and Europe. New lockdowns will slow the economic recovery and potentially reverse some of the job gains that occurred in back half of 2020. Holiday gatherings could result in surge of new COVID cases through the first two weeks of January, potentially overloading already struggling health systems.

In addition, investors who racked up big gains on stocks in 2020 might take profits in the first week of

January to bump the gains into the new tax year.

So, we could see a Santa Claus rally followed by a New Year’s crash.

Top Santa rally stocks to buy now?

New and extended lockdowns could extend the gains of the pandemic tech winners. **Shopify** would be one to consider heading into the final weeks of 2020. The stock already looks pricey, but momentum could carry it to new highs.

A falling U.S. dollar could turboboost the recent rebound in some commodity producers. **Teck Resources**, for example, produces copper, zinc, and metallurgical coal. Copper and zinc continue to benefit from the falling dollar and optimism on strong fiscal stimulus programs anticipated in 2021.

The severity of the second COVID wave means governments might ramp up stimulus spending beyond previous expectations, boding well for the base metals.

Gold stocks might be a good contrarian play heading into the end of the year. The yellow metal and the gold miners gave back gains in recent months, but the key drivers behind the initial 2020 surge remain in place. A weak American dollar, negative government bond yields in Japan and Europe, Brexit, the China trade battle, Middle East security tensions, and a stubborn pandemic should all be supportive of higher gold prices in 2021.

Gold stocks, such as **Barrick Gold**, might be attractive at current price. Barrick Gold’s Q3 results showed the company is a cash machine at current gold prices. Despite the positive earnings and a 12.5% dividend hike, the stock now trades at its lowest price since April.

The bottom line

Where the market goes from here is anyone’s guess. A Santa Claus rally wouldn’t be a surprise, followed by a New Year’s market crash. Regardless of the outcome, Shopify, Teck Resources, and Barrick Gold look like solid picks heading into the holidays.

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Date
2025/08/26
Date Created
2020/12/17
Author
aswalker