Is a Santa Claus Stock Market Crash Likelier Than a Rally?

Description

December tends to be one of the better months for the stock market. But that doesn't mean investors should expect a Santa Claus Rally to come to town this year, especially given the vaccine news is already mostly baked in.

With surging COVID-19 cases, frothy valuations following the best month of November in decades, and the assumption that Congress will pass a U.S. stimulus package sooner rather than later to get the economy through the tunnel to the light on the other side, I think there's limited upside and a whole lot of downside over the coming weeks and months. As such, investors would be wise not to let their guards down, just because most others have been following the U.S. Federal Reserve's pledge to support the economy or stimulus hopes.

It might be time to play defence again

Of course, the Santa Claus Rally could still be scheduled for next week, rather than the start of a stock market crash or correction. Nobody really knows. With Warren Buffett playing defence of late, though, I'd much rather look to own the battered and bruised defensives that could better hold their own if stocks were to correct as they did during the Fed-induced December plunge of 2018.

While there is the potential for negative surprises over the coming weeks and months, I don't think we'll be in for another cash-crunching market crash like the one suffered last spring. If anything, the next pullback would only be healthy for Mr. Market, as the bubbles in isolated areas of the market (think electric-vehicle makers) look to burst. With rising unemployment numbers, the world economy could be headed for a double-dip recession before the 2021 K-shaped recovery. So, don't count out the occurrence of a rotation back into recession- and pandemic-resilience plays at the expense of the hottest COVID recovery and reopening plays that soared in November.

What's my top pick if you're not prepared for the next stock market crash?

I think **Fortis** (TSX:FTS)(NYSE:FTS) is an absolute gift for investors this year. The pandemic had a mildly negative impact on Fortis's operating cash flows, but with the effects of the second wave likely limited compared to most other harder-hit firms, I'd say Fortis has minimal downside risk in the event of another market correction, and a considerable amount of upside as the world returns to normalcy, likely in late 2021.

The stock trades at a mere 1.4 times book value and 2.8 times sales, both of which are too low, given the magnitude of long-term dividend growth that the firm is capable of, regardless of the economic environment.

In late November, an analyst at **Scotiabank**, Robert Hope, maintained his buy rating with a price target of $63, implying 19% worth of gains from today's levels. With a juicy 3.8% yield, shares of Fortis, I believe, are one of few timely opportunities that's capable of rewarding you with north of 20% in total returns in today's frothy market, even if the markets are overdue for a market crash or correction over the near term.

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Date
2025/07/31
Date Created
2020/12/18
Author
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