Warren Buffett Warns: Forget Santa Claus Rally: Market Crash 2.0 Is Here

Description

The broader market fell sharply on December 21 as the new coronavirus strain made investors worried about a market crash. Early on Monday, the **S&P/TSX Composite Index** futures were down by 125 points. Similarly, the **Dow Jones** futures — the key United States index — tanked by nearly 500 points.

At this time of the year, investors usually wait for a Santa Claus rally. However, this year could be entirely different as the new variant of the coronavirus poses a risk of a big market crash. The virus variant — which spreads more quickly — was reported in some parts of the United Kingdom last week.

More restrictions and a market crash

The U.K. has already imposed strict restrictions in many parts of the country — especially in areas where the new coronavirus variant is spreading. After most European countries decided to halt international flights to the U.K., more countries, including Canada, have also suspended all flights from the U.K. for the time being.

While these air travel restrictions are for a few days at the moment, they might get stretched further. If the new coronavirus strain spreads in other countries, the authorities might not have much choice except to impose strict lockdowns.

Warren Buffett's warnings

Warren Buffett — one of the world's most renowned investors — recently expressed his opinion about the economy. In his interview with CNBC, Buffett highlighted how the COVID-19 driven shutdowns have taken a big toll on small businesses and how small businesses "have become collateral damage" in the war against the pandemic.

While calling these shutdowns a "self-inflicted recession" for hitting "many types of small businesses very, very hard," he seemingly pointed toward a brewing economic disaster.

The condition of most small businesses is not great in Canada either. Also, most Canadian companies make a large portion of their revenue from the U.S. market, so the Canadian economy cannot remain untouched by economic troubles in the U.S.

The new variant of the virus could potentially lead to more shutdowns in the near term, making the survival of small and medium-sized businesses more difficult.

Here's what we can do

In times of uncertainty, one way to minimize risk is to buy the shares of reputed companies with a great track record of surviving difficult times.

In November, most **TSX60** stocks across industries and sectors saw a sharp rally. The shares of large banks such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) rose by 13.8% and 17.9%, respectively.

Both banks announced much better than expected fourth-quarter results in the first week of December. While TD Bank's quarterly adjusted profit was about 26% better than analysts' estimates, RBC's profits beat the expectations by nearly 12% in Q4 of fiscal 2020. Interestingly, it was the second consecutive quarter when RBC and TD Bank beat analysts' earnings estimates.

RBC — the largest Canadian bank — has seen significant improvement in its capital markets segments during the COVID-19 phase. In the latest quarter, Royal Bank reported a 4% rise in its capital market segment earnings.

At the same time, a sharp 326% year-over-year rise in TD Bank's latest quarterly net income showcased how the bank is capable of swiftly swimming through tough phases with continued overall business growth.

Bottom line

While Royal Bank of Canada stock has lost 1.9% in December, TD Bank's shares have added 3.6% gains. More shutdowns could lead to more economic damage and trigger a big market crash. But these large banks' shares might continue outperforming the broader market even if the new coronavirus variant results in more restrictions.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
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