Could the COVID-19 Pandemic Crash the Market Again?

Description

The COVID-19 pandemic is about to get worse before it ends. With the mutated variant that's a case for "extreme concern," there's a real risk that we could be back into another full lockdown. As a result, the COVID-19-resilient stocks could receive a major boost after taking a backseat to the suddenly popular reopening plays that promise outsized gains heading into the post-pandemic world.

Could 2021 recovery expectations be a tad too high?

If there's one thing we can takeaway from 2020, it's that few things are more unpredictable than biology, whether it be talking about viral mutations and their implications on public health and the economy, or vaccine breakthroughs — scientific marvels that are comparable to that of the moon landing.

As such, there's always a chance that we could witness further negative surprises in the year ahead, although most people don't even want to think about that after the brutal year we'll all be bidding good riddance to when the clock strikes midnight tonight.

Mutated strains of COVID-19, like those recently discovered in the U.K. and South Africa, could alter the economic recovery trajectory or even cause the pandemic to drag on for longer than expected. While efficacy rates should be unaffected by newly discovered variants of COVID-19, one can't rule out the possibility of a mutated strain that could be even more insidious than recently discovered variants.

While a handful of safe and effective COVID-19 vaccines (with potentially more on the way in the first quarter of 2021), many are looking to punch their ticket to the reopening stocks well ahead of schedule. While there remains an abundance of value in some of the pandemic-battered stocks that could still have more room to run in a U-shaped economic recovery, I'd urge investors not to offload all their defensives, as the broader appetite for reopening plays increases in favour of various pandemic-resilient names.

Why? Consider a bear-case scenario, where there are logistical challenges or potential COVID-19 mutations that could leave us stuck in a pandemic by this time next year. Hopefully, the pandemic will be over soon, and we can enjoy the holiday season next year. But given the unpredictable nature of biology and all the unknowns that remain, investors should not be shocked if the pandemic-resilient stocks that were among the biggest winners of 2020 have another year worth of rally left in them.

Play the 2021 recovery from the COVID-19 pandemic, but have a backup plan in case there's another market crash

As someone wise once said, a market crash is never too far away. They tend to hit when investors least expect it, when things are looking up, and when bears are few and far between.

In prior pieces, I've urged investors to weigh their portfolios towards COVID-19 reopening plays, but to maintain a decent portion in defensives just in case things went south in the new year. While it's good to be hopeful in these horrific times, investors should always consider the wide range of possibilities so they're able to mitigate their risks accordingly.

With a position in shares of **Fortis**, a top-tier bond proxy with a 3.9% yield, one will likely experience dampened downside if we are in for negative surprises that require us to reset our 2021 recovery expectations to the downside. Fortis stock is stuck in the gutter, and I think it's worth picking up if you're light on plays that could have your back if 2021 holds a muted recovery alongside a vicious stock market crash.

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