Stocks Could See Some of the Best Years Ever in 2021

Description

This time last year, the pandemic was just in its initial phase, and markets were close to record highs. No one had imagined then that coronavirus could change our lives to this extent. But stock markets slow and steadily got again back to record levels. Indeed, the disconnect between the markets and the broader economy widened in the last few months. So, is the disconnect really a big deal? Will it lead to another crash in 2021?

The stock market crash in 2021

The **TSX Composite Index** has gained just 2% in the last 12 months. And the slower-than-expected inoculation poses a bigger threat for markets' upside. Although that might lead to a short-term weakness, a crash seems unlikely at this point. Interestingly, the factors that could continue to push stocks higher look in plenty and dominating.

For instance, we are recovering from one of the most destructive economic shocks. None of the earlier damages, before the pandemic, stopped the global economy almost entirely for months. Thus, the recovery will likely be grand with the pandemic's end is well in sight.

Despite slower, vaccinations have substantially boosted 2021 growth prospects. Mobility restrictions should gradually wane, probably in the next quarter, as more population gets inoculated. More important, a higher savings rate from the pandemic era could act as a booster package for the economy. Once restrictions wane, people are expected to spend more, which will kick-start the economy.

Favourable macroeconomic developments

Central banks worldwide also plan to keep their accommodative stance for the next few years. Bank of Canada will likely keep interest rates this low by 2023. The accommodative stance on rates has already proved highly effective for a country's booming housing market.

Another important factor that could drive stocks higher is corporate earnings growth. As business activities gradually normalize, companies could see impressive revenues and earnings growth this year against 2020. This could significantly improve investor sentiment, which should push stocks further higher.

TSX stocks and their valuations

Let's now move over to valuations. Indeed, stocks kept soaring higher when economic recovery was quite uneven in the last few quarters. However, as we know, markets are forward-looking.

Investors are paying a premium for the impending recovery, and that's why the rally could well continue. Interestingly, TSX stocks at large do not seem to be trading at exorbitant valuations. On average, they are trading 24 times 2021 earnings, which does not look too stretched which should lead to a crash.

The top constituents in the TSX Composite index, **Shopify** is the exception when it comes to valuation. The stock is extremely overvalued. But it might continue the upward march given its notable earnings growth last year and stronger prospects, mainly after the pandemic.

Among financial heavyweights, **Royal Bank of Canada** and **Toronto-Dominion Bank** stocks are trading at a large discount. Canadian banks set aside a record sum for bad loans last year. So, their financial performance will likely relatively less affected in 2021. Their robust balance sheets and regular dividends could keep them among investors' favourites.

Conclusion

Even if economic uncertainties are there, factors that support markets' continued rally dominate. If you are sitting on cash, invest in some quality TSX stocks because 2021 could be some of the best years for markets.

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