



Could the Market Rally Continue in Q3 2021?

Description

The Canadian stocks opened sharply lower on Thursday — partly due to continuously diving oil prices and [investors' fears](#) about new COVID-19 variants. This morning, the **S&P/TSX Composite Index** was trading at 20,215 with about 1.4% losses for the day. Energy stocks like **Nexgen Energy**, **Crescent Point Energy**, and **MEG Energy** were among the worst-performing stocks at the open. Let's dive deeper into the factors driving the market lower and find out whether the market rally could continue in Q3 2021.

Why stocks are falling

The broader market started 2021 on a much better note than earlier expected. The TSX Composite benchmark rose by nearly 16% in the first half of the year. Sharp gains in energy, mining, and financial services stocks mainly drove the market rally. In contrast, some high-flying stocks from 2020, like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)), remained mixed in the first five months of the year before turning positive in June.

Surging oil and metal prices amid rising demand helped the shares of energy and mining companies soar earlier this year. However, metal prices — especially gold — have been consistently falling after reaching their multi-month high in the first week of June. This has pressurized mining stocks in the last month.

Oil prices trading at their multi-year high until earlier this month have been falling for the last three sessions in a row. During this period, oil prices have slid by nearly 6% — triggering a selloff in energy stocks. The recent drop in oil prices came after major oil-producing nations failed to reach an agreement to increase production, despite higher demand.

Another factor that has been hurting investors' sentiments is rising cases of new COVID variants. Investors fear that new variants pose a risk to the ongoing recovery across sectors.

But the market rally may continue in Q3

It's not unusual to find a sharp decline in commodities prices, including gold and oil, after months of a consistent rally. I expect commodities to resume their overall positive trend after a healthy short-term correction, as the demand remains strong.

Also, I don't think the new COVID variants can force governments to impose nationwide shutdown-like restrictions again this year. No important data has suggested that the vaccines — which are being used across North America and Europe — are not effective in dealing with new COVID variants. I believe investors' fears about new variants without any major evidence might not be enough to reverse the market direction. That's why the ongoing selloff could just be a part of a correction that usually occurs after the market has too high, too fast.

Which stocks to buy

Instead of mistaking the ongoing market correction for a market crash, investors can take advantage of the ongoing selloff and buy their favourite stocks cheap. While most stocks from the energy, mining, and financials sectors are seemingly trading with rich valuations at the moment, some [tech stocks](#) like Shopify and Lightspeed are [worth considering](#).

Both of these companies continued to report strong business growth during the pandemic phase. But they largely underperformed the market in the first five months this year before rallying in June. While Shopify stock posted 31% gains last month, Lightspeed's shares inched up by 18.3%.

Lightspeed provides omnichannel commerce solutions to small- and medium-sized businesses. It's likely to see a significant rise in its sales growth in the coming quarters amid the reopening. While Shopify's sales growth rate might go down a bit in the coming few quarters, it still is likely to remain much stronger than most other tech companies.

Despite their strong future growth outlook, SHOP and LSPD stocks are trading with only 28% and 16% year-to-date gains. That's why you can expect such tech stocks to surge in the second half of the year and keep the market rally going in Q3 and beyond.

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TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:LSPD (Lightspeed Commerce)
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