



Is the Market Too Frothy? 3 Reasons Why it Could Still Grow

Description

The **S&P/TSX Composite Index** is usually a slow grower, especially compared to markets across the border. An example of its relatively modest/almost stagnant growth would be the three-year period of 2017 to 2019 when the index barely grew 13%.

If we compare that to the index's growth after the pandemic. The index has grown about 72% post-pandemic. This is 5.5 times more growth (in less than two years) than the index's growth in the three years before the pandemic. Even if you factor in the recovery, the growth is quite uncharacteristic for the TSX market. So, calling it "frothy" is not too big a stretch.

The market has been dipping for a while now, but it's not clear whether the trigger was an overdue correction or the fear of the new variant. But it might not necessarily be the end of the post-pandemic bull run, and there might still be a lot of upsides left.

Efficient COVID response

The Omicron variant is pushing the number of new COVID cases up, but the country and the healthcare system are much better prepared. A lot of people are vaccinated as well, and if the Omicron wave is handled the right way, the confidence will permeate to the TSX as well. Still, during uncertainty, certain stocks may fare better than others.

Wheaton Precious Metals ([TSX:WPM](#))([NYSE:WPM](#)) creates value for its stakeholders (and stockholders) through its streaming services. It has streaming agreements all over North and South America and some in Europe. Gold and silver streaming is WPM's specialty, and between 2020 and 2025, they are expected to make about 51% and 41% portion of the revenue mix, respectively. It also has stakes in Palladium and Cobalt projects.

Wheaton is not [a typical gold stock](#) that you might want to keep in your portfolio just as a hedge against drastic market conditions. But the stock pattern so far follows the trend of the broader gold market. It started spiking right after the pandemic, and, at its best, it grew about 117%. The stock has fallen a long way since then.

A small correction

The TSX is already [experiencing a correction](#) that is expected to counteract the recovery-fueled 2020 growth and knock the market down closer to its intrinsic value. However, stocks like **Canadian Tire** ([TSX:CTC.A](#)) entered the correction phase pre-emptively. The stock has fallen almost 16.5% from its 2021 peak, and it's currently quite attractively valued.

Its long-term prospects, when it comes to capital appreciation, are modest at best, especially if you consider the last five-year history of the stock. But if the current slide continues for a while longer, you will not just be able to get a better chance at growth (thanks to the stock's recovery to its fair valuation); you will also lock in a better yield compared to the current 1.4%.

Relatively “paced” growth

The difference between 2020 and 2021 growth was almost non-existent before the recent dip, but if you factor that in, the growth this year is significantly better paced than last year. This shows that the difference between the intrinsic and current value of the market is shrinking. And since organic economic and business recovery is already underway, we might be nearing a proper starting point to another decade-long bull run.

Hydro One is one company that can help you ride the upcoming long-term growth wave. This electric power distribution company has been on its way up since 2019, and the market crash and subsequent recovery barely put a dent in its usual growth pace/pattern. The valuation is just right, and the 3.2% yield is also quite attractive.

Foolish takeaway

Choosing the right [growth stocks](#) when you are uncertain about the market's future can be tricky, but you can mitigate the risk significantly by choosing the right long-term assets. And the longer you hold on to them, the higher the chance of you making up for any error in judgment you may have displayed by investing in a supposedly frothy market.

CATEGORY

1. Coronavirus
2. Investing

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2. TSX:CTC.A (Canadian Tire Corporation, Limited)

3. TSX:WPM (Wheaton Precious Metals Corp.)

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Date

2025/07/22

Date Created

2021/12/24

Author

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