



Omicron Variant: Could Another COVID Scare Spark a Market Correction?

Description

Many pundits and strategists have been calling for a market correction endlessly over the past year and a half, it seems. Undoubtedly, many rally doubters have been bearish ever since the market started bouncing back in March of 2020. Indeed, by listening to such overly bearish folks, you missed out on a historic relief rally that extended into 2021.

Indeed, returns from 2021 will be tough to top, with a solid 27% gain. With many big banks posting their S&P 500 price targets for 2022, one can't help but notice that most are muted. Some are even negative. Undoubtedly, the market landscape is rocky. And with Omicron cases surging wildly across the nation, one still cannot rule out a scenario that sees markets jittery again at the hands of COVID.

The pandemic isn't over yet. And the dominant variant by the end of 2022 may not even be Omicron, which may be cause less-severe virus than the previous Delta variant, which filled up hospital beds at a jaw-dropping rate. Still, Omicron is incredibly infectious, and there's still quite a bit we do not know, specifically regarding the rate of breakthrough cases. In any case, America seems reluctant to rollback recent re-openings.

Omicron peak intensifies, but its wave could peak in a few weeks

With the Omicron wave expected to peak in the latter half of January, recently hit reopening plays may be worth a second look, as they could have the most room to run going into February — a time when Omicron cases could begin to fall. What variants and waves lie after Omicron remains to be seen.

Regardless, I don't think another Omicron scare will send markets into a tailspin. But perhaps a variant that's yet to be labelled as a variant of concern could in a few months from now. That's why I wouldn't yet back up the truck on the most aggressive of reopening plays like **Air Canada**. However, I would [proceed cautiously](#) in this new year, especially if you're itching to put your latest \$6,000 TFSA contribution to work with the expectation that more of the same strength will continue into 2022.

Undoubtedly, the big banks don't expect much out of 2022 on the returns front. That said, you can do better than the markets with prudent stock selection in some of the unloved areas of the market. Remember, there's always opportunity somewhere for those willing to search and put in the analysis.

What could cause the next market correction?

Although I don't see an Omicron-induced market [scare](#), I think that a market correction in 2022 should not be ruled out. We're overdue, and market valuations are quite stretched in the United States. However, in Canada, there's a greater abundance of bargains. If a correction does happen, I suspect it will be a correction of valuations, especially in those hot names with valuations skewed on the higher end of the range.

What could cause it?

Possibly the Federal Reserve comments, as they inch closer towards hiking interest rates to combat the insidious effects on inflation. If economic growth begins to drag and the Fed continues hiking rates, markets could easily take a spill. As such, it's important to have just enough dry powder to take advantage of such buying opportunities.

The bottom line

Now, nobody knows when a 10-20% correction will hit. But it's never a bad idea to be ready for such a scenario, even though the opportunity costs of holding cash have gone up considerably, with inflation continuing to weigh on purchasing power.

In short, it may be too late to chase some of the high flyers or falling knives, as markets extend themselves above a select number of year-end S&P 500 price targets. However, for those looking at unloved names, it may make sense to start doing some buying, especially if you've got more cash than you know what to do with and are concerned about inflation.

Is it too late to scoop up Air Canada stock? Perhaps. But what about some dirt-cheap insurers? Perhaps they're worth loading up on here, even if expectations for the year are downbeat.

CATEGORY

1. Coronavirus
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Coronavirus
2. Investing

Date

2025/08/20

Date Created

2022/01/05

Author

joefrenette

default watermark

default watermark