Stock Market Rally: Bull Trap or New Highs Ahead?

Description

The stock market rally kicked it into high gear on Thursday's session of trade, with the hard-hit U.S. indices adding to their tremendous gains over the past week. Indeed, it's been such a sharp relief rally that the term "melt-up" or "upward crash" may apply. Indeed, it's been a while since we've witnessed such a sharp bounce back.

While there remain many doubters on whether the rally will be sustained, I think that investors should not overreact either way, by loading up on stocks and chasing gains or by using the upward spike as an opportunity to lighten up the portfolio. If you're not diversified enough to take another correction, then sure, lighten up on risk and add to some of the most conservative plays out there that are better able to stomach higher interest rates. Think cheaper, recession-resilient stocks with solid balance sheets and a means to march higher without help from the broader market.

Stock market rallies, even as the Fed gets hawkish

It's these such names that could lead the TSX to new heights steadily throughout the year. At the same time, battered growth plays may be in for an even larger bounce back in spite of the headwind of higher rates. With between six and seven rate hikes priced in here, there could be a bit of extra relief to be had should central banks take a slightly more dovish pivot.

The Fed seems like a hawk today, with a potential double rate-hike (50 bps) move possible at its next meeting. That'd put the rate right at 1%. In Canada, the BoC (Bank of Canada) needs to get as hawkish, if not even more hawkish than the Fed, given how incredibly strong the Canadian economy continues to be. The strength is courtesy of higher commodity prices. Indeed, BoC should act now to stomp out inflation before it gets harder to do so down the road!

Higher rates in the cards for 2022

Yes, higher rates make stocks worth less, especially those with no profits and weak balance sheets. That said, high-quality, profitable firms with strong balance sheets can persevere through an environment that could see rates hit the 2.5% or even 3% mark by the conclusion of 2024.

In short, I would be a buyer on the bounce but would not discount the probability that this bounce is just another bear market rally. Indeed, such rallies tend to be as sharp as corrections during bull markets. In any case, I wouldn't venture to guess if we're out of the woods yet. There are too many unknowns, and the Ukraine-Russia crisis could come to a peaceful resolution quicker than anticipated.

Further, alleviation of COVID headwinds and a continuation of the reopening could jolt the economy far greater than most bears expect. Indeed, the Fed may be right to hike in the face of a potentially underrated economy.

Algonquin: A powerplay that's looking cheap amid the relief rally

I'd be more selective with stock picks and not look to get overly greedy. Think names like **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN), a great renewable power firm that's still dirt cheap at $19 and change per share, even after last week's nice bounce.

The stock boasts a huge 4.6% dividend yield alongside a respectable long-term growth story. Green energy is the future, and Algonquin is arguably one of the cheaper and more diversified ways to play the trend. Although the firm still has some issues, I think management will do a fantastic job of navigating through challenges come the post-pandemic world. Higher rates aren't ideal for the firm, but I'd argue that most such negativity is already overblown.

Algonquin is a high-quality utility with robust cash flow-generative assets and is well equipped to see new highs this year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

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. Investing

Date
2025/09/14
Date Created
2022/03/26
Author
joefrenette