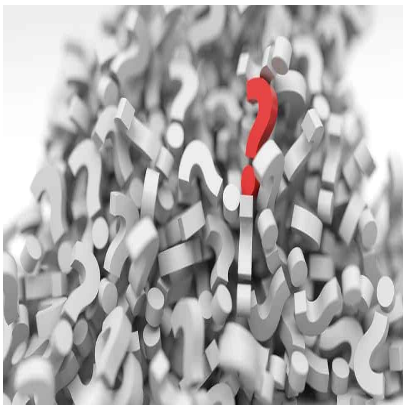

Can Equitable Group Inc. and Enbridge Inc. Rebound This Year?

Description

The January contraction of GDP in Canada was not a welcome sight for investors in what has been an extremely choppy beginning for the **S&P/TSX Index**. Lower output of non-conventional oil extraction and a slumping real estate industry contributed the most to the decline. Is this the beginning of a troubling trend for these industries and the economy at large?

Equitable Group Inc. (TSX:EQB) stock has dropped over 20% in 2018 thus far. The output of real estate and broker offices fell 12.8% in the month of January, representing the largest monthly decline since November 2008. This drop is more than likely to continue in light of recently released data.

The month of March saw detached homes in and around Toronto decrease 46% from the same period in the prior year. The average price dropped 17% to $1.01 million, according to the Toronto Real Estate Board (TREB). This resulted in the average selling price for all homes to fall 14% to $784,558 – the largest decline since 1991. New OSFI mortgage rules, which include a stress test for uninsured borrowers and an interest rate hike in January have apparently put increased strain on real estate.

TREB director of market analysis Jason Mercer said that price growth is likely to improve throughout the year in comparison to a rough first quarter. A key interest rate decision is also on the slate for the Bank of Canada later this month, but it will be data dependent, as usual. The Ontario election also has the potential to impact the housing market. Doug Ford, the leader of the Ontario Progressive Conservatives, has hinted that he will seek to scrap the foreign buyer tax if he's elected in June. The PCs have sustained a sizable lead in the polls since the beginning of 2018.

Enbridge Inc. (TSX:ENB)(NYSE:ENB), the largest energy infrastructure company in North America, has also seen its stock suffer at the start of 2018. Shares are down over 15% this year, and Enbridge reportedly plans to sell off more assets than originally planned – up to $8 billion, which was double the original projection. Oil and gas extraction plunged 3.6% in January, which represented the largest decline since May 2016. Statistics Canada pointed to unscheduled maintenance shutdowns, resulting in a 7.1% reduction in oil sands production.

The federal government reportedly plans to spend $280,000 for a new study to explore Canada's competitiveness in the oil and gas industry. The United States has outshone Canada as an energy investment destination in recent years. Key contributors have been the “energy friendly” Republican administration combined with tax reform that slashed the corporate tax from 35% to 21%. According to the consulting firm Wood Mackenzie, investment in the Canadian oil and gas industry declined over 50% between 2014 and 2016.

Enbridge remains an enticing pick due to its dividend yield, which is now over 6%. The company still faces uncertainty with its Line 3 pipeline, but investors should get closure on the project by mid-2018. Most recently, Enbridge has announced its intention to sell $2 billion in Western Canadian gas assets and a partial stake in its German offshore wind project.

It’s certainly worth monitoring this dividend star in 2018, but its steep slide dating back to last year makes it a tough buy even for income investors.

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