Could Debt Spell Doomsday for These 3 Stocks?

Description

An August 23rd research note from **Goldman Sachs** analyst Jan Hatzius may inspire some alarm among Canadian investors. The report drew attention to the private-sector financial balance, which is an economy's total income minus the spending of all households and businesses. This metric has been a reliable predictor of crises in the past.

Canada joined the United Kingdom in a problem area for the report. According to the report, both "are running sizable deficits and appear vulnerable to higher interest rates and weaker asset markets." Canada and Britain have the added pressure of a turbulent housing market and ongoing Brexit negotiations that has exacerbated a political crisis in the United Kingdom. In any case, the research note states that this indicator is flashing red in Canada.

Canadian debt woes is something I have written on extensively early this year and in 2017. Today, we are going to look at three stocks that could feel an early impact due to these woes.

Genworth MI Canada (TSX:MIC)

Genworth MI Canada is a private residential mortgage insurer in Canada. Shares are up 0.94% in 2018 as of close on August 29. The company has managed to avoid a lot of the major turbulence in the housing market over the past year. The most recent rule change that saw uninsured buyers subject to a stress test did not impact Genworth, which had already seen insured buyers forced to undergo a stress test starting in late 2016.

Genworth is the safest housing stock as we look ahead to the final months of 2018. The Bank of Canada's gradual rate increases have also boosted its bottom line. Count on the central bank to maintain this equilibrium and for Genworth stock to hold steady into the next decade while also boasting a 4% dividend yield.

Home Capital Group (TSX:HCG)

Home Capital is a Toronto-based alternative lender. Shares of Home Capital have plunged 16.3% in 2018 so far. The company has worked feverishly to improve internal processes that nearly led to its collapse in the spring of 2017. Home Capital climbed back to profitability late last year, but mortgage originations have suffered a steep decline. Alternative lenders and banks will both see improved retention rates in this tightening environment, but loan growth may be hard to come by with regulations clamping down on prospective buyers. The worst is likely over for Home Capital, but its value as a growth stock in this environment is in serious question.

goeasy (TSX:GSY)

goeasy is an alternative financial services company that offers merchandise leasing of home-based products and unsecured installment loans to borrowers that may be unable to get financing from larger institutions. Shares have surged 42.6% in 2018 so far as its loan book portfolio climbed over 120% year over year in its most recent second-quarter report. If anything, goeasy could emerge as a bigger player, as Canadians are squeezed by rising rates and tighter credit rules at larger lenders.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:GSY (goeasy Ltd.)
2. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2018/08/30
Author
aocallaghan