Will 2018’s Market Turmoil Turn Into a Recession in 2019?

Description

It’s been one heck of a year for the **S&P/TSX Composite Index.** Starting off 2018 at 16,309 points, it has since fallen as low as 13,857–a 15% fall. As if that weren’t enough, there are some saying that this down market could turn into something more: a full-on recession. With interest rates rising, markets tanking and housing in a freefall, it’s not the craziest idea ever floated. And it has the blessing of some highly respected investors, including Ray Dalio, who in September said that a recession would be coming within two years.

It’s not clear that a massive “2008-style” global recession is on the horizon. But in Canada and North America, the harbingers are all rearing their ugly heads. We can start with interest rates.

High interest rates

High interest rates tend to precede recessions for a number of reasons. For one, they tend to discourage loans, as higher interest makes borrowing more expensive. For another, they decrease investment, because debt is one of the more common ways investments are financed. Finally, rates rise as an economy expands, so the higher they get, the closer we are to the top.

One sector that tends to do well in high interest rate environments is bank stocks. Banks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) deal in loans, so they bring in more money per customer when rates are high. On the other hand, higher interest rates may result in them making fewer total loans, so the relationship isn’t exactly clear cut. In the meantime, TD bank is growing earnings at 9% year-over-year, with even better growth in its U.S. retail business, so that stock remains a good pick for 2019.

Housing market woes

Another indicator that a recession is on the way is a falling housing market. And in Canada today,that's exactly what we're seeing. In 2018, new home sales fell 12.5% nationwide and as much as 42%in Vancouver. The late 2000s global recession was preceded by a housing market crash in the United States, and it's no surprise: a decline in home sales hurts financials, construction companies, landscapers, and many other vital components of the economy.

Safety in "boring" stocks

So far, we've seen that many recession "omens" are apparent as we head into 2018. But for investors, not all hope is lost. There are many ways to invest your money profitably in protracted down markets, and I don't mean by shorting. Instead, you can pick stocks in sectors that do well in bull or bear markets.

Sectors that provide essential services typically do better than average in recessions. One example would be **Canadian National Railway** (TSX:CNR)(NYSE:CNI), which fared better than the TSX average in 2018. CN Railway makes money shipping goods by rail, so its business is somewhat affected by the broader economy, but not as much as companies that directly sell expendable products.

There will always be demand for certain product categories (food, clothing, household appliances) even in the worst of times. Companies that ship goods, therefore, have a strong base of business that will remain even in a recession. This makes CN Railway a strong "worst case scenario" pick for 2019.

CATEGORY

1. Dividend Stocks
2. Investing
3. Top TSX Stocks

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing
3. Top TSX Stocks

Date

2025/09/12
Date Created
2018/12/27
Author
andrewbutton