2 Ways Canadian Investors Can React to the Yield Curve Inversion

Description

A downturn may be on the way, heralded by the first yield curve inversion since 2007. A closely monitored indicator of the economic climate, the spread between decadal and quarterly treasury rates has finally flipped, causing alarm bells to ring in the U.S. markets, with global implications.

Following last fall's mass sell-off, falling consumer activity, and warnings signs from the real estate sector, and all of this while beset by trade war machinations, Eurozone worries, and a protracted Brexit, it would appear that the global economy's fears may be coming home to roost. Below are two key strategies to consider when holding stocks through a possible widespread market downturn.

Get defensive and resist the panic

While there is a Canadian yield curve as well, its inversions are less accurate at predicting a recession. One of the best stocks on the TSX index that looks just about ready made for a U.S. yield curve-predicted recession would be **Bank of Montreal** (TSX:BMO)(NYSE:BMO). In fact, any investor looking to stabilize a portfolio with a solid stock need look no further than the likes of BMO.

While Canadian banking contracted by 2.5% in the last 12 months, BMO returned 4%, making it an outperforming stock, though not by an enormous margin. Still, margins are far from huge in Canadian banking, with even the biggest six banks only inching ahead. Indeed, even an expected 3.6% annual growth in earnings is considered an acceptable outlook in this sector at the moment.

where BMO really excels is in its track record: its one-year past earnings growth of 24.6% is more than double the banking average for the same period (+10.5%). Meanwhile, a clean balance sheet and a decent dividend yield of 3.97% join attractive valuation (see a P/E of 11.1 and P/B of 1.5) to add up to one solid defensive play.

Know what you're holding and stay invested

A good stock to hold through a recession would be that of any big utilities or energy company — in addition to a Bay Street banker, or course. One such stock would be **Suncor Energy** (TSX:SU)(NYSE:SU), an example of the “too-big-to-fail” variety. With a five-year average past earnings growth of 9.1% it might be what you’d call “high growth,” but its solid market share in a defensive sector make it a sturdy choice.

With a decent balance sheet, it’s a fairly low-risk play, and with fair valuation (indicated by a P/E of 22.3 times earnings and P/B of 1.6 times book), shares of Suncor Energy would, at worst, be a neutral influence on a portfolio’s overall health. Meanwhile, a dividend yield of 3.72% and 20.6% expected annual growth in earnings is solid for an energy stock on the TSX index.

The bottom line

Europe as an economic flashpoint has been a concern for some time, but things may come to a head this year, compounding any possible North American business downturn, with ongoing trade concerns adding to the mix; either way, it may be prudent to limit exposure to the E.U. (and to Britain, if it suceeds in breaking away from the monetary and political union).

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:BMO (Bank Of Montreal)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

5. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2019/03/25
Author
vhetherington