WARNING: These 4 Alarming Trends Could Send The TSX Index Lower

Description

The month of May 2019 witnessed the first major streak of losses on the **TSX** since last year's correction, with the index shedding 2.75% of its value over the course of a month. The sell-off was triggered by tensions between the U.S. and China, with a U.S.-imposed tariff increase having caused severe panic. Although trade fears weighed heaviest on the **NYSE, NASDAQ** and Shanghai, the TSX experienced milder losses, which continued well after the initial news broke.

When global indices began sliding, many believed that the losses were a short-term response to political bluster that would disappear with time. Now, with tensions only escalating, investors are beginning to brace for continued losses. The spat between the U.S. and China is not failing to subside, but it's actually spreading, with Mexico now caught in the crosshairs.

It's not only trade that has investors worried, however. The TSX is being influenced by a number of trends that could send stocks lower. The following are four of the most alarming trends.

Slowing mortgage growth

Earlier this year, it was reported that growth in Canadian mortgages had slowed to 3.1%, its lowest level in 17 years. With house prices falling in major markets and housing affordability at 29-year lows, this trend could accelerate. If it does, then financial stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) could be hit, as they depend on mortgage interest for revenue.

Deteriorating credit quality

Related to slowing mortgage growth is the problem of deteriorating credit quality. A recent **Equifax** report predicted that Canadian delinquencies would rise this year on poor credit; U.S.-based hedge funds concurred, forming the basis of their thesis for shorting Canadian banks. If these delinquencies do materialize, banks such as RBC would be hit hard. In response, RBC has recently begun increasing their provisions for credit losses.

Tanking oil

The Canadian economy is heavily weighted in oil & gas, with the sector contributing about 10% of GDP. The problem is that oil is starting to fall off a cliff. Over the course of May, the **Canadian Crude Index** fell 23%, hitting as low as $36 and threatening to reach its abysmal November level. Should that materialize, you can expect Canadian oil stocks to fall.

Slow GDP growth

The final factor that threatens to send the TSX lower is slowing GDP growth. Last week, it was reported that the Canadian economy grew at just 0.4% year over year in Q1, thereby underperforming the U.S.'s growth in the same period. Such sluggish growth is generally bad news for banks, among other sectors of the economy.

RBC, as the bank with the greatest amount of domestic market exposure, stands to lose from many trends that contribute to slow GDP growth. Banks generally suffer more during recessions than do other sectors, as such events usually result in fewer loans and more delinquencies.

Although slow GDP growth in itself does not necessarily mean that the banks will lose value, the factors that contribute to it often do. For example, a decline in business activity generally means fewer new business loans, thereby resulting in a slowdown in interest revenue growth.

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Date
2025/09/10

Date Created
2019/06/03
Author
andrewbutton