How to Play These 2 Stock Market Game Changers

Description

A number of game-changing events could see major shifts in the TSX in a short space of time. Today, we'll take a look at two of them and how Canadian investors can play the market accordingly.

How to play a Canadian rate cut

While it's easy to see rate cuts as a sign that confidence in the economy is low, the flip side is that timing a stimulus strategy can be key to that economy improving. With high household debt and the chance of a housing bubble destined to burst, the next election could very well coincide with an announcement on interest rates.

Value investors anticipating a Canadian rate cut might also want to start making their last-minute shopping lists now while their wish-list tickers are still selling at reasonable prices and with higher percentage yields. For instance, while the Big Five would logically see their income dip on lower interest rates, bank stocks could potentially see a boost after a cut if the market perceives stimulated borrowing.

A long-term response to higher oil

There are two things that persistently higher oil could do to the markets. First of all, it could depress entire sectors that rely on oil for transportation of goods, which would have a knock-on effect in many areas of the TSX and drive investors towards safe havens like gold and utilities. While oil investors could end up having something to cheer about in the short term, value could get wiped off other sectors in the long term.

The other thing that higher trending oil prices would likely do is force businesses further towards clean and renewable energy sources. Nuclear energy could gain some traction in the long term, as would green sources of energy such as thermal, wind, hydroelectricity, and solar. Renewables are already a growth sector, but persistently higher oil could give it a boost and add upside to green energy stocks.

Northland Power (TSX:NPI) is a smart play in the green energy sector. Renewables are increasingly seen as a high-growth area in one of the most defensive spaces known to investors. Northland is a particularly strong choice, given its diversification: With operations focused in Canada, Northland also has assets in Mexico and Europe, with electricity production driven by a spread of natural gas, wind, and solar sources.

Investors looking to add safe passive income to their portfolios have a strong choice in Northland, with its tasty 4.92% yield well covered by cash flows. It's worth noting that Northland outperforms the Canadian renewables industry, with the growth-focused company's total returns of 96.3% coming in at almost double the average over the last half-decade.

The bottom line

While macroeconomics aren't everybody's cup of tea, every now and then it pays to grapple with the big picture. Canadians with longer-range portfolios built around buy-and-hold dividend stocks should look at the possible effects that game changers such as a rate cut or a severe oil bottleneck might have on their holdings and make sure that they strip out any unnecessary risk while doubling down on the most defensive assets.

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