Recession Watch: How to Prepare Your Portfolio for a Market Downturn

Description

The Canadian economy continues to roll along at a steady clip, but pressure from international events could start to have an impact here at home.

What's going on?

The trade dispute between China and the United States is starting to weigh on global economic growth. In its latest report, the International Monetary Fund says it is anticipating global growth to be 3% for 2019, down from the July forecast of 3.2%.

If the latest outlook proves correct, it would be the slowest economic growth the world has generated since the financial crisis 10 years ago.

The big culprit appears to be the economic challenges being created by tariffs imposed by the two economic powers. The spin-off effects are causing collateral damage around the globe, as the international markets and supply chains have become so tightly intertwined in recent decades.

Manufacturing activity is slowing and business investment is on hold, as companies try to figure out where they should be putting their money. In addition, the uncertainty surrounding the potential length of the standoff is forcing business leaders to set up operations in new countries and search for new suppliers.

A domino effect of reduced investment could trigger a global economic recession, including in the United States. Canada relies heavily on its neighbour for the bulk of its trade, so a slowdown would likely occur in the Canadian economy.

The latest employment figures in Canada suggest the economy is still in good shape. How long that will last is anyone's guess.

Warning signs

Stock markets remain resilient, but the global bond market could be signalling trouble is on the way. Analysts say at least a quarter of global government bonds now trades at a negative yield.

The idea that you would have to pay someone to borrow money from you is tough to get our heads around, but that is exactly the case in Japan, Germany, and a group of other European countries.

The strategy being employed by policymakers is based on a bet that banks would prefer to lend out more money rather than being charged by central banks to hold their funds. Spending is required to drive investment and create new jobs, and businesses are more likely to borrow when rates are low.

However, when companies think things are going to get worse, they close their wallets and risk extending the problem.

Bond yields in Canada and the United States have fallen significantly this year, and pundits say a major economic downturn could see the U.S. join the negative-rates club, as well.

How to protect your portfolio

Building some defence into your stock holdings might be worth considering today.

Companies that have strong balances sheets and provide products and services that are considered essential for homes and businesses would be a good place to start. This would include the Canadian telecoms and some utilities that get most of their revenue from regulated assets.

Telus and **Fortis** would be examples to consider. These stocks pay dividends that should be rock solid and tend to hold up well when the market hits a rough patch.

Gold stocks might also be of interest as the price of the yellow metal could surge amid a wave of funds searching for a safe place to hide. One complaint against gold is the fact that it doesn't offer any yield. However, no yield is a good place to be in a world of negative interest rates.

Gold is also attractive for holders of currencies that would be at risk of losing significant value against the U.S. dollar.

Industry leaders, such as **Barrick Gold**, might be worth a look right now. An annualized increase of US$300 in the price of gold would add about US$1.5 billion in revenue for Barrick Gold, based on annual production of about five million ounces. Assuming the cost structure remains steady, free cash flow could surge.

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Date
2025/08/01
Date Created
2019/10/15
Author
aswalker