Will the TSX Index Keep Up its Winning Streak in 2020?

Description

2019 was the best year for the TSX composite index in a long time. Rising 19.66%, it hit new highs and survived a summer trade stand-off that some predicted would tank the global markets. Although the TSX's 2019 gains were nowhere near as good as the S&P 500's, they were quite solid in their own right.

Now, the question is, how long can they last?

We are currently in the midst of an unprecedentedly long North American economic expansion that has lasted more than 10 years. History would dictate that this run will end soon, and if the economy tanks, the stock market is likely to go along with it. A recent poll from the National Association for Business Economics showed that 70% of economists polled believed a recession would hit no later than 2021. If that comes to pass, then the TSX's winning streak will likely end soon. However, it's quite possible that for 2020 at least, the TSX could remain strong.

Reasons the winning streak could keep going

One reason that the TSX could keep up its gains in 2020 is that the U.S. economy is still pretty healthy. In its most recent quarter, the U.S. grew at 2.1%, which is strong for a mature economy. The U.S. economy has a huge effect on that of Canada, and growth in the former tends to boost the latter. That's one reason to believe Canadian stocks still have a ways to go.

Additionally, even if Canada *does* enter recession, strong growth in the U.S. could keep Canadian *stocks* afloat. Many Canadian companies export goods to the U.S., and some banks like **TD** have operations in the States as well. This means that strong U.S. growth can keep Canadian equities chugging along, even if domestic GDP slows down.

Reasons it may come to an end

Despite all of the above, there are several reasons to believe that Canadian stocks won't fare well in

2020.

One big reason is poor consumer credit quality. Canadian consumers report being unable to manage their debt, and the big banks are behaving as if this were the case, increasing their Provisions for Credit Losses (PCLs) quarter after quarter. This suggests that there could be coming weakness in the financial sector. The TSX is heavily weighted in bank stocks, so a few more quarters of rising PCLs and lower bank earnings could send the TSX into a correction.

One factor that's more of a wild card is energy stocks. Over the past five years, energy stocks have been holding the TSX back, thanks to stagnant oil prices and Alberta supply woes. If oil remains weak, then it could hold the TSX back again in 2020. On the other hand, if it strengthens, then the TSX could remain strong.

With that said, not all energy stocks necessarily require strong oil to thrive. Pipeline stocks like **Enbridge**, for example, charge distance-based fees, which don't necessarily vary with the price of oil. As long as there is strong demand for oil transportation, such stocks can thrive. That's one reason to consider Enbridge stock in itself, but, of course, weakness in oil will send Canadian energy stocks *as a whole* lower and could drag the entire TSX down as a result.

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