Market Crash: Bank of Canada Has a Tough Interest Rate Choice Now

Description

Central banks around the world are panicking as their interest rate plans have completely derailed in light of the coronavirus outbreak. The virus that causes COVID-19 broke out in Wuhan, China, earlier in 2020.

At writing, cases of the virus in China have increased, and there have been outbreaks in Northern Italy, Korea, and Iran. Forty banks have already cut interest rates due to the pandemic, and Canada is likely to be the next country in line.

I am going to explain the situation and a possible course of action you could take to protect your financial stability.

Spreading fears

Interest rate expectations before the virus outbreak in China were likely drastically different than they are now for central bankers. As the coronavirus outbreak slowly spreads around the world, central bankers are busy rewriting their plans for interest rates.

There is a likelihood that the Bank of Canada will announce rate cuts as due to the spread of the illness. The odds of Canada cutting its interest rates were minimal at the turn of the new decade.

Chances have increased as both Canadian and U.S. markets enter price correction territory. The **S&P/TSX Composite Index** is already down by more than 7% from its 2020 peak in February. As an increasing number of people choose to stay home, airlines are seeing their ticket sales decline.

Central banks raise interest rates when they want to cool down overheating economies. Similarly, they lower interest rates to stimulate economies when they are slowing down. China, Russia, the EU, Mexico, India, and Russia have all cut interest rates in recent months. Canada might follow suit soon.

How to deal with the situation

As overall stock market prices fall, investors may try to tuck their tails between their legs and run. I advise reprioritizing your portfolio to invest in companies that go against the current when there is a market meltdown.

It is common knowledge that gold is a commodity that increases in value as the economy falters. The coronavirus outbreak has worked in favour of gold and companies associated with the precious yellow metal.

Barrick Gold Corp. (TSX:ABX)(NYSE:GOLD) has experienced a sudden surge. At writing, it is trading for $27.55 per share. The stock is up by almost 15% from the start of 2020. It is also up by a massive 65% from the same time last year. The gold mining company relies on the price of gold, and the current situation can see Barrick continue its rally moving forward.

Barrick Gold is quickly becoming a zero net debt company with its net debt down to approximately $2 billion. The company's debt is notably lower than its debt just six years ago at $10 billion. Barrick has sold its inefficient mines to pay back debt and strengthen its balance sheet.

The company is also likely to increase dividend payouts for shareholders. It already increased its dividends by a substantial 40% in February.

Foolish takeaway

Investors must prepare for the impact of the coronavirus outbreak on the economy. The interest rate cut, if it happens, is not likely to boost the economy when it comes into effect. As an investor, I think you should reprioritize your finances to invest in stocks that can weather the storm of a recession well.

Between stable earnings, rising commodity prices, attractive dividends, and reducing debt, I think Barrick Gold could be an excellent stock to consider to this end.

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