Get Ready for a Bear Market More Brutal Than 2008

Description

Stock markets across the globe continue to tumble lower since the **Dow Jones Industrial** posted its largest one-day fall ever. The headline stock index has shed a whopping 30% since the start of 2020 and continues to slide lower, dragging lower other indices around the world.

The TSX has also suffered sharp losses. The **S&P/TSX Composite** is down by 30% and will fall lower in coming days. The TSX's reliance on energy and mining stocks makes it particularly susceptible to a global downturn.

While a global recession is imminent, there are now talks of an economic depression emerging. Even recent stimulus unleashed by central banks has done little to buoy markets. There are many reasons for this, but key is the considerable ongoing uncertainty created by the coronavirus pandemic.

Rising infections

Sadly, it is likely that more coronavirus cases will emerge, which will unfortunately lead more fatalities. This will spook Wall Street, causing the Dow to fall lower, sparking market declines across the globe.

Even the latest oil price collapse, which sees the international Brent price at under US$28 per barrel, will do little to stimulate economic activity. This is because governments across the globe will be forced to implement stricter controls to prevent the spread of the coronavirus. That will include travel restrictions, isolating cities as well as regions, and a growing push for greater self-isolation. It also places greater pressure on hotels and restaurants to close their doors until the pandemic has run its course.

Dr. Anthony S. Fauci, the leading U.S. infectious diseases expert, has stated that regional lockdowns will be necessary, and those vulnerable to the infection should avoid travel. This will lead to a significant drop-off in economic and social activity.

Essentially, it will bring the economy to a grinding halt and could last for three months or even longer.

Stimulus will flounder

Government stimulus, including lower interest rates and the promise of helicopter money, will do very little to encourage economic activity. That will weigh heavily on company earnings. I expect a harsh second-quarter reporting season, where many companies will experience significant declines in profitability. The most vulnerable are entertainment, travel, hotel, and restaurant stocks.

While stocks over coming weeks will likely rally, the advent of earnings season will trigger further declines. This perfect storm could create a bear market deeper and longer than that which existed during the Great Recession. That calamitous event caused the Dow to lose 28% and the S&P/TSX Composite to lose 30% between the start of 2007 and end of 2008. It took until the around mid-2009 before stocks started to recover.

A combination of even less activity because of the coronavirus and limited policy tools to stimulate growth means that markets around the world will experience even greater losses, and the recovery could take significantly longer.

What investors must do

Investors are exiting stocks in droves because of coronavirus and recessionary fears, which are being whipped up by sensationalistic headlines. This makes it imperative to keep a cool head. At the Motely Fool, we focus on investing in quality companies for the long term. As long-term investors, current events shouldn't be viewed with fear but as an opportunity to gradually acquire quality stocks with solid fundamentals that will rebound strongly when the crisis ends.

Such a stock is **Northwest Healthcare Properties** (TSX:NWH.UN), which is down 44% for the year to date. The real estate investment trust owns a diverse portfolio of healthcare real estate in Canada, the U.K., Australia, and Germany.

It has made several accretive acquisitions since the start of 2019, bolstering its growth prospects. Northwest reported some solid 2019 numbers, including a total 35% unitholder return for the year, beating the S&P/TSX Composite's 19%.

Northwest possesses a wide economic moat, which protects its earnings. The demand for healthcare is inelastic, meaning that the utilization of its hospitals and other healthcare properties will remain strong. That provides further earnings certainty and keeps occupancy rates high.

A debt-to-gross-book-value ratio of 49.67% at the end of 2019 highlights the strength of Northwest's balance sheet. If you buy Northwest today, you can lock in a very tasty 9.7% yield, rewarding investors while they wait for markets to rebound and Northwest to rally.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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