Canadians: Here Are 3 Ways to Prepare for an Upcoming Recession

Description

The COVID-19 pandemic has driven global equity indexes to multi-year lows. While China is likely to re-open manufacturing facilities and return to normalcy in the next two weeks, countries such as Italy, Spain, and France have seen death rates spiral upwards.

The bear market has been caused by fears of lower consumer spending, which can easily result in a recession. According to economists, a recession is a decline in economic activity that is widespread and can last several months.

A recession will impact industrial production, employment rates, and real income, which in turn will drive GDP lower. Currently, it is difficult to estimate the impact of the coronavirus on global demand, and a lot depends on how governments around the world manage the situation.

Lower spending will result in a drastic fall in the company's top line. For firms with a high leverage ratio, repayment of interests will be a cause of concern. This would result in restructuring, cost-cutting, and widespread lay-offs.

Corporate and household debt are at record highs, which will increase default rates of banks as well. Energy prices will continue to move lower due to subdued demand, making production unprofitable for most energy players.

So, how can investors prepare in case a recession hits global economies by the end of 2020?

Have an emergency fund

The rise in unemployment rates will leave a significant portion of the working population jobless. In order to make it through these difficult times, people need to have enough savings to pay for basic necessities for at least six months.

This emergency fund needs to be kept aside for a rainy day where you can dive into your savings without having to worry about paying for basic living expenses.

Invest in a diversified portfolio

The recession is likely to impact several industries. Currently, companies in the hospitality, airlines, and tourism sectors are reeling under the pressure. Shares of **Air Canada**, **Gamehost**, and **Expedia** are trading 76%, 67%, and 66%, respectively, below 52-week highs. Energy companies, including **Pembina**, **Enbridge**, and **Inter Pipeline**, have lost considerable value as well.

Shares of consumer-facing companies such as **Canada Goose** are trading 75% below record highs. While multiple sectors are likely to be hit, investors can look to diversify their funds and build a robust portfolio. You need to consider different asset classes such as equities, bonds, REITs and commodities, which minimizes risks.

Keep investing in blue-chip companies

Despite the tremendous pullback in the equity market over the last month, it is impossible to time the market. This bear market provides a golden opportunity to buy high-quality stocks at attractive valuations.

In this volatile market, investors can bet on recession-proof companies such as **Walmart**, **Krogers**, and **Loblaw**. Utility companies such as **Fortis** and **Canadian Utilities** also safe bets.

For investors with higher risk exposure, growth stocks such as **Shopify**, **Constellation Software**, **Cargojet**, and **Kinaxis** can provide significant upside potential. Investors should view every pullback as a buying opportunity and average out their losses.

Recessions have been a constant over the years and cannot be escaped. But you can prepare yourself to come out of a recession unscathed.

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