3 Scary Reasons Why the Market Crash Could Get Much Worse

Description

Canada's benchmark stock market has lost one-third of its value in a month. All sectors have plunged, and not one is in green territory. The coronavirus outbreak and the oil price war are exacting the most massive damage to the energy sector. As of March 20, 2020, the sector has fallen by 48.9%.

A portfolio manager describes the scenario in the energy industry as a valley of death. Many analysts are advising investors not to panic, think things out, and stay the course in the face of extreme volatility. The present situation is unprecedented, and it seems the worst is yet to come.

Here are the scary reasons:

Exponential rise of infections

The World Health Organization (WHO) is calling on all countries to expand testing to slow the spread of the coronavirus. But as the testing capacities of countries catch up, there's an exponential rise in new confirmed cases.

Canada has tested 50,000 people and is instructing those with mild symptoms to self-isolate than to seek testing to prevent test-kit shortages. WHO insists that countries isolate, test, treat, and trace. Otherwise, transmission chains can continue at low levels. When social distancing is lifted, there could be a resurgence.

Health crisis not mitigated

The world is racing against time to develop a coronavirus vaccine. If the pandemic is prolonged, there will be a corresponding wave of pandemic job layoffs. Businesses are grinding to a halt, and companies are preparing to lay off employees.

Magna International (TSX:MG)(NYSE:MGA), a global auto parts supplier, is temporarily suspending production. Only the production in China will continue while the rest of the manufacturing facilities around the world are ceasing operations. Also, automakers in North America are temporarily closing their plants.

Year to date, the price of Magna has fallen by 47.2% to $37.39 per share. The stock pays a 6.78%, although management could decide to hold or cut dividend payouts if the business deteriorates.

In 2019, Magna was already experiencing a slowdown due to the trade war. Aside from the reduction in global vehicle production, there was a $1.3 billion U.S. dollar currency headwind to the company's sales. Net income fell by 23.1% versus 2018. Magna, however, was able to generate a record $2.3 billion free cash flow.

Magna is warning of decreased auto production volumes in 2020 due to the coronavirus outbreak. Management lowered its 2020 outlook and ended Magna's partnership with Lyft to develop the self-driving technology.

Sustaining liquidity

The Canadian government is under pressure to bolster the financial system and the economy. There's a need to provide long-term stable funding so that lending to consumers and businesses will continue.

For now, it's reassuring that the Bank of Canada is ready to adjust its market liquidity operations. The central bank aims to maintain market functioning and credit availability during these challenging times.

Damage control

The Canadian government is doing all it can to save the country's economy. Meanwhile, citizens are encouraged to cooperate and help contain the spread of the coronavirus. While the dislocation is severe, it will pass, and markets should recover.

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