Coronavirus vs. Oil Prices: Which 1 Hit the Stock Market Worse?

Description

What is the option for Canada now that it's in the middle of two major crises? If the COVID-19 isn't enough, the falling oil prices are beating the energy sector to a pulp. The extreme volatility is pushing the Toronto Stock Exchange (TSX) and other stock markets around the world near the edge of the cliff.

The current wave of stock selling resembles 2008 closely, following the collapse of Lehman Brothers. It was the start of the financial crisis. There is genuine panic today that investors haven't seen for years. But which of the two, the virus or oil price, is affecting the stock market the worse?

Stimulus packages

Both the governments of Canada ($82 billion) and the U.S. (US$1 trillion) are rolling out rescue packages to keep their respective economies afloat. The drastic moves, however, aren't helping any to calm the stock market. Investors are frightened by the long-term consequences of the "social distancing" recession.

On February 20, 2020, the S&P/TSX Capped Energy Index was at 134.03. As of March 19, 2019, it has fallen to 44.23 (-203%). The shares of **Cenovus**, **MEG**, **Ovintiv** (formerly Encana), and **Vermilion** have fallen no less than 30% in recent days.

Probable survivor

Despite the 72.3% year-to-date loss, analysts think **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) is one of the energy stocks that can weather the coming recession. The price of this $13.23 billion energy company, as of this writing, is down $11.20 per share.

Last week, management slashed its 2020 full-year capital expenditure budget. Instead of $4 billion, the company will spend $2.9 billion due to weakness in oil prices. However, the output forecast did not change. CNR expects to produce between 1,137,000 and 1,207,000 barrels of oil equivalent per day this year.

CNR is one of the largest oil producers in Canada. Scaling back production is nothing new to the company. It's a common practice ever since the tumultuous oil price war in November 2014 which was led by OPEC.

The latest production cuts are inevitable, given the coronavirus outbreak and weak demand. Likewise, top producers Russia and Saudi Arabia are locking horns that could lead to an oversupply of oil. Aside from lower production, there will be salary cuts for CNR executives effective April 2020.

There is a bright spot for CNR in the disrupted energy sector. The company is in a position to acquire quality assets at bargain prices if the crisis prolongs. From a dividend standpoint, income investors can relish the 12.39% dividend. CNR has a healthy balance that should carry the company past any recession.

Desired end game

Between the coronavirus and the oil prices, the health crisis is inflicting more damage to the stock market. Investor confidence will return. The global pandemic should peak, followed by decreases in infections and deaths. Still, market recovery might be slow and gradual.

Only the development of a vaccine that will conquer COVID-19 is the desired end game. If it comes, you can expect a rapid market recovery. Also, people will return to their usual routines.

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