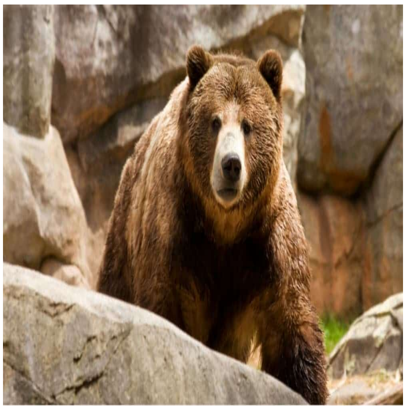

Bear Market 2020: It’s Not Over Yet

Description

Investors enjoyed a reprieve from the fastest bear market in history. From Tuesday through Thursday, the TSX Index jumped by 19%, while markets south of the border jumped by +20%. In fact, the U.S. markets are officially in a bull market territory. However, given the volatility of the markets, it would not be surprising to see another significant downturn.

In Canada, new COVID-19 cases continue to set daily records. Likewise, the U.S. now has the highest number of active cases worldwide. It seems North America is just getting started. Any hope of a return to normal over the next few weeks looks to be misplaced. On Friday, economists from Canada’s largest banks announced that they expect gross domestic product to dip by approximately 20-30% in the second quarter. This is more than double the estimates from just last week. Given this, it is likely the bear market isn’t over.

Furthermore, Canada has seen almost a million unemployment claims — a weekly record. Another dubious record was set in the U.S., as more than three million Americans filed for unemployment. This was more than double estimates. Neither Canada nor the U.S. have flattened the COVID-19 curve. The longer it persists, the greater the negative impact to the economy.

The problem for investors is, it is difficult to deploy cash in such an environment. If you are worried that you missed out on a once-in-a-lifetime opportunity, don’t be. It is likely the bear market will show its head once again. On the flip side, what if the market is truly in the midst of a market rebound? Don’t worry, there is still plenty of opportunity at the tail end of this bear market.

The bear market swallowed up this big bank

Canada’s big banks took a significant plunge as they have dealt with two major headwinds — COVID-19 and the price war on oil. Collectively, the Big Five have lost 22% of their value over those three months. Although several have rebounded nicely, there is one that is still sitting on a significant loss — **Bank of Montreal** (TSX:BMO)(NYSE:BMO). As of writing, Bank of Montreal is the worst-performing bank and is down 30.26% in the current bear market.

The bank is now yielding 5.89% and is among the most attractive income stocks on the TSX Index. It is a Canadian Dividend Aristocrat, having raised the dividend for eight consecutive years. Bank of Montreal also has the distinction of owning the longest-running dividend payout streak in Canada. At 191 years and counting, it stands out above all others in the current bear market.

The company is also cheap. Trading at only 7.9 times earnings, it is the second-cheapest bank in Canada. This is despite of having the highest expected growth rate. Analysts estimate the Bank of Montreal to grow earnings by an average of 4.7% annually over the next couple of years. This is tops among its peers.

A hard-hit utility company

The utility industry has held up better than most. This is no surprise, as utility companies are mostly immune to the COVID-19 containment measures. In fact, they also stand to benefit thanks to ultra-low interest rates. There is one company, however, that hasn't fared as well in the current bear market — **Capital Power** (TSX:CPX). Year to date, the company has lost 20.62% of its value.

As one of the smallest in terms of market cap, it is not surprising that Capital Power is more volatile. However, it is no more impacted by COVID-19 than the others. As such, the dip is a great opportunity for investors. Capital Power is trading at an industry-low 10.5 times forward earnings and is trading below book value (0.72). Furthermore, it is the only utility that has a P/E-to-growth (PEG) ratio under one (0.48). This signifies that the company's share price is not keeping up with expected growth rates. As such, it is considered undervalued.

Despite the current bear market, analysts are bullish on the company. On average, they expect annual earnings growth of approximately 23% over the next couple of years. This places it among the top growth stocks in the industry.

CATEGORY

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