Will the COVID-19 Market Crash Disrupt CPP Benefits?

Description

We're heading into April, and COVID-19 shows no signs of slowing down. As of Monday, there were 764,000 cases and 36,000 deaths worldwide, with the U.S. outbreak in particular escalating quickly.

For investors, the outbreak has brought considerable pain. Global markets have fallen across the board thanks to business closures and stay at home orders. As of Monday, all of these conditions are set to remain in effect. Donald Trump recently extended the U.S. social-distancing guidelines to April 30, while Canada's COVID-19 measures are planned to last four months.

This brings us to CPP. Financed partially by stocks, the program's cash flows could come under strain if the market crash continues. While there are no indications yet that that will happen, the possibility is worth exploring. To see whether there's any cause for concern, let's take a look at what the CPP portfolio actually consists of.

The CPP investment portfolio

According to the CPP Investment Board's website, the fund invests in private equity, stocks, private debt, real estate and infrastructure. All of these investments could be impacted by the factors that sent stocks lower in March.

Private equity investments aren't publicly listed, but their fundamentals could decline, as we've seen with stocks. Stocks themselves may nosedive if it becomes apparent that COVID-19 will last longer than initially projected. Private debt and real estate have been doing better than stocks, but there's no guarantee that that will continue to be the case. Debt is always safer than equity, because lenders have priority claim on assets, but real estate could suffer if out-of-work tenants can't pay their bills.

One example of a CPP portfolio stock that's struggling

As an example of how the bear market could impact CPP investment performance, we can look at one stock the CPP fund holds: **TORC Oil & Gas** (TSX:TOG).

According to Fool contributor Christopher Liew, TORC Oil & Gas is a top holding of the CPP investment fund. As of this writing, it has fallen 85% since the COVID-19 market crash began on February 20. TOG is a petroleum/natural gas exploration and production company. Like many other companies in its industry, it has fallen primarily thanks to crashing oil prices. As an oil and gas producer, the company needs solid oil prices to make money. There is no one “breakeven” point for all energy companies, but **IHS Markit** reports that tar sands producers need $40 a barrel on average. Crude is nowhere near that level, so companies like TORC Oil & Gas will struggle to make money in this environment. As long as oil prices remain low, expect this stock to continue struggling.

Of course, the CPP Investment Board owns a highly diversified portfolio. TOG is just one among thousands of stocks it owns — in addition to other asset classes. However, most stocks — Canadian and global — are down over the past month. Most likely, the public equities portion of the CPP investment fund is down too. For now, that doesn’t mean your CPP benefits are in jeopardy. CPP is, after all, funded by employee/employer contributions. They could be increased if the fund were to perform poorly for a prolonged period. However, it’s always good to keep an eye on the investments your pension money comes from. Were the stock market crash to persist, it could cause problems.

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