TFSA Investors: Is the Recent TSX Index Market Rally the Beginning of a Major Recovery?

### Description

Is the 2020 stock market crash over? This is the million-dollar question every TFSA investor and stock analyst is asking right now.



## Market rebound

The **TSX Index** jumped 19% from the March 23rd closing low of 11,228 to 13,371 by the end of trading March 26. Since then, the market has pulled back but still sits just above 13,000 at the time of writing. This is well off the February high near 18,000.

Whether or not the 2020 bottom has occurred is anyone's guess, but history suggests investors might want to start nibbling on top-quality dividend stocks. The rebound after the 1987 crash and the bull market that occurred over the past decade following the Great Recession serve as important indicators of what might be on the horizon.

## Risks

Investors can't ignore the short-term economic impact. A global downturn caused by the COVID-19 outbreak is forcing companies to cut staff and preserve cash. Business investment is on hold, and consumer spending is down significantly. Oil demand is off 25% and the price of WTI oil is near an 18-year low.

Investors should prepare for ongoing volatility in the coming weeks and months.

## Upside

Aid measures put in place by the Canadian and U.S. governments should put a floor under job losses in through the worst of the crisis and could create a new phase of strong economic growth in the two countries. Despite the difficult outlook and challenging times amid the lockdowns, the economy is expected to bounce back once the coronavirus outbreak ends.

Once the market has more clarity, stock prices should rebound.

Which stocks are attractive?

Industry leaders with strong track records of revenue and dividend growth tend to be top picks. Companies to consider include those that provide essential services to the economy and enjoy sustainable competitive advantages, otherwise known as wide moats.

Let’s take a look at one top Canadian stock that deserves to be on the radar right now.

## CN

**Canadian National Railway** (TSX:CNR)(NYSE:CNI) is the only rail operator in North America with tracks connecting ports on three coasts. CN effectively serves as the backbone of the Canadian and U.S. economies, transporting raw materials, manufacturing supplies, and finished goods. In total, CN moves $250 billion in product per year.



Investment in new locomotives, rail cars, and network upgrades came in at roughly $4 billion in 2019, and CN continues to ensure it maintains efficient operations. Revenue is expected to slide during the current economic rout, but demand will rebound as the economy recovers.

CN is a very profitable company. The board uses the funds to invest in the business. CN also provides investors with a piece of the profits. In fact, the compound annual dividend-growth rate over the past 20 years is about 16%.

The company should benefit from low fuel costs and cheap borrowing rates through the tough times. In addition, the surge in the U.S. dollar means profits generated in the United States should help earnings when converted to Canadian dollars.

The share price is grinding higher after slipping from $127 in February to a closing low near $96 in March. At the current price of $109, CN still appears cheap.

## The bottom line

It wouldn’t be a surprise to see the TSX Index rally to new highs by the end of 2021. Today, investors could be looking at the buying opportunity of a lifetime.

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