How COVID-19 Could Pop Canada’s Housing Bubble

Description

Canada has been in an economic shutdown due to the COVID-19 pandemic that has been raging across the world. It has been over a month since the emergency began, and it is having a drastic impact on the economy.

Amid the pandemic-fueled shutdown of the economy, the effect on Canada’s housing market is an issue plaguing Canadian citizens. The housing market in major localities in the country was already in a bubble that people feared was going to pop any time soon. The onset of the pandemic has led to several changes in the economic landscape that can lead to the bubble finally bursting.

I am going to discuss how the novel coronavirus can lead to what seems like an inevitable bursting of the bubble. Additionally, I will discuss the steps you can take to protect your capital during the economic crisis.

Loan defaulters galore

The average Canadian household was already struggling with a challenging debt-to-income ratio before the current economic situation. Canadians were borrowing more money than they were earning. The Canadian government was already taking measures to mitigate the effects of the situation by continually decreasing interest rates.

Due to the inability to earn an income for the foreseeable future, Canadians are losing their ability to fulfill their obligations of paying down loans. Banks have offered mortgage deferrals to help Canadians navigate the challenging circumstances. While the deferrals might provide much-needed relief to indebted citizens, they will still need to pay off their debts.

Banks with significant exposure to mortgage debts are currently afloat due to the government’s stimulus package. They will likely encounter the effects of the disruption in cash flow as the pandemic continues. Banks could see themselves at high risk if the economic shutdown doesn’t end soon.

With waning demand, decreased ability to buy homes, and increasing adversity in the economic landscape, we might eventually see real estate investors selling property at highly discounted prices. The housing market crash can burst in a way that we have never seen since the 2008 market crash.

Protecting your capital

In a challenging situation like this, it is better to avoid exposure to the housing market entirely. To protect your capital from the effects of a possible housing market bubble burst, it would be better to consider a safer asset. You need to search for an income-producing asset that can provide you generous returns through dividends.

Fortis (TSX:FTS)(NYSE:FTS) stock could be an excellent choice to consider to this end. No matter how bad the economic situation becomes, Fortis will continue to generate a steady stream of income. One of Canada's most significant utility operators, Fortis, provides an essential service that people will rely on.

Fortis has long been seen as a conservative stock that investors flock to during uncertain times. The stock does not have the highest dividend yield, and it does not exhibit astronomical capital gains. Its boring status is exactly what can lead to Fortis being an ideal pick, especially during a time like this.

The regulated nature of its services creates guaranteed cash flow. It is one of the few companies right now that can assure a 5-6% increase in dividends each year, despite what happens with the COVID-19 pandemic. Where most companies are ready to cut dividends, Fortis is in a position to continue increasing its payouts to shareholders.

At writing, the stock is trading for $54.79 per share. It has a 3.49% dividend yield. Fortis shares are up 1.97% from the start of the year. The S&P/TSX Composite Index is down 14.37% in the same period.

Foolish takeaway

There is plenty of uncertainty in the market right now. With a housing market bubble possibly about to burst in the coming months, investors need to look for secure places to park their capital. To this end, I think an income-producing asset like Fortis could be the perfect stock to consider adding to your portfolio.

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Date
2025/08/20
Date Created
2020/04/30
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