3 Reasons Why the Worst of the Market Crash Is Still to Come

Description

Despite the heightened volatility and uncertainty, the month of April has been good so far on the **Toronto Stock Exchange** (TSX). There is renewed optimism because Canada's main stock market index gained 27% on April 23, 2020, from a month ago. In March, the **TSX** lost nearly 18% due to severe hammering by the coronavirus outbreak.

Investors should remain cautious and not be complacent. The gains in April could be wiped out in the weeks ahead. Take your cue from Warren Buffet. The legendary investor is suddenly fearful of investing. His gut feeling is that another market crash is coming.

Weakened energy sector

Canada is only one of two G7 countries given "triple-A" ratings by S&P Global Ratings. However, the pressure is intensifying, particularly on key industries. The revenues in the once-mighty energy sector are evaporating.

Enerplus (TSX:ERF)(NYSE:ERF), the $694.4 million oil and natural gas producer, is one of the many Canadian energy companies that are reducing production, curtailing spending, and trimming costs. The primary reason is that oil prices remain below profitable levels.

According to Ian C. Dundas, Enerplus' President and CEO, the impact of COVID-19 is unprecedented. With the addition of excess global oil supply, the industry will be facing significant challenges.

Thus, to maintain financial strength, the company is reducing capital spending by $25 million while at the same time lowering cost structure. Similarly, by curtailing production levels, Enerplus is preserving shareholder value. It won't be selling oil at negative margins.

Fortunately, Enerplus has about US$100 million cash-on-hand and available US$600 million senior unsecured bank credit facility. Management is assuring investors it has enough hedge and operational flexibility to ride out the downturn. The loss of this energy stock year-to-date is a staggering 65.8%.

Shaky fiscal position

Canada’s fiscal position is not looking good at the moment. The outstanding debts of provincial governments ($853 billion) are more than the national government. Massive federal assistance might be needed to arrest the situation.

The consequence of introducing new fiscal measures is a possible downgrade in Canada’s high credit rating. In 2020, the country’s borrowing needs stand at 11.8% of GDP.

The gross domestic product contraction is expected to be 5.3% this year. But the country needs to assist its provinces and its business sectors as well as the households. Therefore, Canada is treading a thin line.

No vaccine yet

Social distancing is one measure to slow down the spread of the virus, but only a vaccine can prevent people from catching COVID-19. While about 80 companies are racing against time to develop a cure, there’s no vaccine in sight yet.

Canada is earmarking $1.1 billion to fund a national medical and research strategy to address COVID-19. Meanwhile, the country is tripling the number of tests. Plans are underway to loosen restrictions, although nothing is definite as to when it would be implemented.

Roller coaster ride

Like other major stock exchanges around the world, the TSX will be shooting up and down for as long as COVID-19 is raging. Market recovery is still far off and the worst market crash is still forthcoming.

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cliew