Market Crash 2020: Will Royal Bank of Canada Stock Move Lower?

Description

There is growing uncertainty among the global populace, as the COVID-19 pandemic continues to wreak havoc on daily lives. There has been a spike in unemployment rates, as businesses have shut and countries are under lockdown. A deep cut in consumer and enterprise spending might impact the banking industry. Does this mean companies like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) will see continued erosion in stock prices?

Shares of Royal Bank of Canada are trading at $84.88, which is 23% below its 52-week high. The coronavirus-led sell-off coupled with lower oil prices have driven shares lower this year. But is the worst over for investors? Or is there mayhem in store in the near term?

Macro indicators are weak

We can look at a few macro indicators to analyze the impact on the Royal Bank of Canada's financials. One such metric is the Warren Buffett indicator. This compares the value of the stock market to a country's GDP. If this figure is over 100%, it indicates the equity market is overvalued.

Currently, the Warren Buffett indicator for Canada is about 107%. But Canada's GPD is expected to fall by 6.2% in 2020, according to the IMF. In Q1, this decline was pegged at 2.6%. As the GDP estimates move lower, the Buffett ratio might widen in case the markets continue to climb.

This indicator for the U.S. market stands considerably higher at 133%, which means stocks are significantly overvalued south of the border. The U.S. is the world's largest economy, and if markets crash there, it will take down multiple players in the global economic ecosystem.

While a massive dip in consumer spending is a concern, so are the rising unemployment rates. According to data from *Trading Economics*, Canada's unemployment rate rose to 7.8% in March 2020, up from 5.6% in February. Will this drastic spike result in mortgage defaults? Canadians also have high debt, and the rise in the probability of default might hurt the Royal Bank of Canada and peers.

Canada's economic growth depends a lot on the energy industry, another sector that is grappling with low demand. Royal Bank of Canada may have significant exposure to oil companies. The triple threat of rising unemployment rates, lower spending, and falling oil prices might continue to affect the country's leading banks.

Royal Bank of Canada is a banking heavyweight

Royal Bank of Canada is the country's largest company in terms of market cap. While the banking giant is not immune to the ongoing crisis, its strong fundamentals will help the firm make it through difficult times.

It has a robust loan book and is well diversified. The company has operations in 36 countries with a primary focus in Canada and the United States. Royal Bank of Canada's recent weakness has meant the stock has a forward yield of 5.1%. The payout ratio remains below 50%, making a dividend cut unlikely this year.

Royal Bank of Canada has increased dividends at a compound annual growth rate of 7.4% in the last 10 years. While earnings might fall by 4.3% in 2020, it's estimated to rise by 5.3% in 2021. Looking at the stock's 2021 forward price-to-earnings multiple of 9.4% and its estimated growth and dividend yield, we can see that it has upside potential on a market rebound.

The stock has lost momentum in the last two months. While the near term is uncertain, this pullback provides a good opportunity for long-term investors. It is impossible to time the markets, and investors should look to buy top-quality stocks at every major dip.

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