Market Crash 2020: Brace Yourself: The Worst Is Yet to Come

Description

Stock markets across the globe still haven't fully recovered from the plunge they experienced in March. The **S&P 500** is 12.75% below its start of the year value, and the **S&P/TSX Composite Index** is down 13.77%. The worst sectors continue to be energy, and financial and tech is one of the fastest recovering sectors. Several provinces have started to ease lockdown restriction, which will hopefully augment the recovery process.

While the situation hasn't changed much in the last couple of weeks, there are few reasons why the market might plunge further down in the near future.

U.S.-China tensions

The U.S.-China trade war is starting to heat up again. The U.S. is reiterating its policy to remove global industrial supply chains from China. The government claims that it's "turbocharging" the initiative to move essential manufacturing back to the country, through incentives and subsidies. While this seems like a matter between the two countries, the repercussions are likely to be global.

A lot of investors are looking into gold again to provide their portfolios a hedge in case the U.S.-China trade war truly ensues. This is likely to worsen the upcoming recession, may even turn it into a long depression.

Slow oil price recovery

As the lockdowns start to ease up globally, the demand for oil has started to increase, but the process is very slow. The post-pandemic demand is hard to predict, and a full recovery is unlikely in the near future. It would be better if this fragile recovery isn't taken as a lifeline for the sector, as in case a second wave of the virus hits the world, the demand and oil price may plummet even further than it did in April.

This means that if you have a dividend giant like **Enbridge** (TSX:ENB)(NYSE:ENB) in your portfolio, you might experience a slower recovery of your investments. The company's stock has rallied significantly, and it's now only 17.4% down from its start of the year value, compared to the 33% plunge it experienced in March. The current 7.5% yield might also entice many prospective investors, but there is a catch.

While the company has been diligent (and generous) in rewarding its investors with high dividends, the payout ratio hasn't historically been in the company's favor. And it's likely to get worse. Whether the company will be able to continue its generous payouts remains to be seen.

One thing that Enbridge has going for it is that as a pipeline company, the giant isn't as exposed to oil prices as many others in the sector are. Enbridge's profit is tied to the shipping volume, and not to the oil price. So if demand goes up, and oil producers start to ship extensively, Enbridge's stock might see a swift recovery.

Foolish takeaway

It's hard to say whether another crash is imminent, but it's clear that we aren't out of the woods yet. For investors, now's the time to be prudent about the securities they have in their portfolios – and very discerning about any new companies they want to buy in.

Another crash might offer even more opportunities to buy the dip, but it's hard to say how many companies will realistically be able to recover if another dip actually comes.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/17

Date Created
2020/05/08
Author
adamothman