



WARNING: Canada's Housing Bubble Could Burst in 2020

Description

Some bears out there think that the [coronavirus crisis](#) could be the pin that ends up bursting Canada's housing bubble. The frothy Vancouver and Toronto real estate markets are among the frothiest on the planet. With rapidly rising unemployment levels as a result of COVID-19-induced lockdowns, many Canadians may be at risk of defaulting on their mortgages.

Even before the coronavirus, many pundits warned that there was a housing bubble forming in various parts of the country. With growing fears that we could fall into a depression environment, it would be foolish (that's a lower-case *f*) not to rule out a scenario that could see a tonne of mortgage payment deferrals turn into defaults.

In a [prior piece](#), I'd highlighted the fact that mortgages can only be deferred for so long and drew a comparison to the events that led up to the housing meltdown of 2007-08.

"I see mortgage deferrals as akin to the teaser rate period in the lead-up to the Financial Crisis. Although there's no foul play this time around, the mortgage deferral period, like teaser rate periods prior to 2008, do not make for a sustainable payment plan over the long haul." I said. "They both assume that the income of the mortgagor will be at a level to meet payments after the expiry of each respective period — an assumption that may not be safe to make."

A Canadian housing meltdown now seems plausible

If we are, in fact, due for a V-shaped recovery from the coronavirus crisis, then sure, Canadians will be headed back to work, will be able to finance their mortgages again, and a Canadian housing market crash will have been averted. Given a V-shaped recovery from this socio-economic disaster is being forecasted by pundits wearing rose-coloured glasses, though, I don't think it's at all prudent to assume that the coronavirus will be eradicated and that a second (or even third) outbreak of COVID-19 isn't possible.

According to infectious disease expert Dr. Anthony Fauci, a second wave of coronavirus infections is "inevitable." Such a disastrous scenario would entail more lockdowns, and there's a chance that an

economic recovery will be more U- or L-shaped in nature. And sadly, employment levels may not recover to pre-pandemic levels for years. It's a truly horrific situation that hurts to talk about. But as investors, we need to prepare for the worst, so we're not hit with investment losses that could prove to be unrecoverable.

How can you protect yourself as an investor?

I'd stay away from securities that expose you to Canada's housing market.

CIBC ([TSX:CM](#))([NYSE:CM](#)) looks to be the most vulnerable of the Big Six Canadian banks to a meltdown in the Canadian housing market. Shares of CIBC sport a greater discount and a higher yield (just north of 7%) than its peers, and for a good reason.

If worse comes to worst, and a wave of mortgage defaults happens as a result of coronavirus-induced financial pressures, CIBC stock could have much further to fall. The stock is down just over 33% at the time of writing and could be dwarfed by the kind of decline that could be possible as mortgage loans start souring in massive quantities.

Of course, if a coronavirus vaccine comes sooner rather than later, a Canadian housing collapse may never happen, and shares of CIBC could prove to be severely undervalued right here. Given the wide range of potential outcomes, though, I just don't think the massive downside risks are worth the marginally higher rewards to be had in the name over its peers. As such, investors should take a raincheck on CIBC stock and wait until a much better entry point or more clarity regarding this coronavirus crisis.

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Date

2025/08/03

Date Created

2020/05/21

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