Market Rebound: Sorry Folks, There's Another Bottom

Description

Just when you thought things were on the mend. A market rebound seems to be underway after industries across the board fell by an average of about 40%. Since the fall, there has been a relatively steady stream upwards. But analysts have a warning for investors: don't be too optimistic just yet.

It could still be a while before we see a true market rebound. In fact, we could even see markets bottom out even further. Here are a few reasons, and signs, that another market bottom could be on the way.

Earnings

The first quarter has just come to an end for most industries. That means companies of every type will have to fess up and tell investors just how badly the market downturn affected them. This time is different than other recessions and bear markets. Whereas a poor economy will usually cause businesses to not have as many people buying products, making investments, etc., the pandemic means people physically can't.

Canadians don't have the cash to blow because they have either lost their jobs, or are at the very least strapped for cash. It also means businesses don't have the usual flow of people coming into store fronts. Even worse, most businesses aren't considered essential, so production, distribution, all of these necessities are on hold until after the pandemic. This has and will cause earnings to plummet. That means investors will lose faith and shares will plummet as well. Therefore, a market rebound seems far off.

Housing crash

Another factor to consider before a market rebound can occur is the housing crisis. For years analysts have warned investors that a housing crash would come. Canada's urban centres have values that are simply too high and couldn't be maintained. Today, the beginning is upon us. Housing sales were down 57% in April, and it's likely to only get worse. Even if the pandemic were to end tomorrow, Canadians need time to get back to pre-crash finances. No one wants to sell in a buyer's market, so it's likely most houses will be off the market until things improve.

What to look for

What the recent crash likely was, unfortunately, is a dip. Given the current economic climate, there is likely going to a long-term bottom that Canadians will have to face moving forward. It's going to last a lot longer than a couple of days before showing any signs of improvement, and could go far lower than the last crash. This is because when the first crash hit, people still had some money to spend. These stresses on finances hadn't come in to play.

More layoffs are going to happen. More businesses are going to close. More restrictions are going to remain in place and cause companies to pull back resources. Canadians are going to feel the financial pressure more and more, and that will mean they can't afford to invest. When that happens, a market bottom will stick around. Investors bought during the last crash. That's not going to happen with the next one. But after that, a market rebound could truly be on the way.

What now?

If you have a bit of cash to put anywhere, it should be in a dividend all-star like **RioCan Real Estate Investment Trust** (TSX:REI.UN). It may sound counterintuitive investing in a real estate stock during a housing crisis, but there's two advantages. First, RioCan is the second-largest REIT in Canada, with a huge portfolio that focuses on shopping centres and grocery stores. Its largest grocery store is **Loblaw**, which has been doing well under the current conditions. However, the company doesn't let any one business take up more than 10% of its overall portfolio, which creates the diversification you'll want.

Second, it offers huge dividends. The REIT currently offers a dividend yield of 10.49% as of writing, so investors can lock in significant cash flow before a market rebound. That yield could get even higher should this market bottoms out yet again.

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