Investors: 3 Reasons Why Canadian Stocks Will Keep Marching Higher

Description

Despite what seems like a never-ending stream of bad economic news, North American stocks keep heading higher.

Canadian stocks have also joined this trend. Since the **TSX Composite Index** bottomed at just over 11,000 points in late March, the market has been on an absolute tear. The index is now flirting with 16,000, which represents a recovery of some 40% in just a few months.

Naturally, bearish investors are none too happy about this. They're content to wait out this rally with cash on the sidelines, hoping to buy in when Canadian stocks inevitably dip again. Some of these bears are even calling for economic weakness that lasts for years, exasperated by waves of COVID-19 hitting already fragile economies over and over again.

I couldn't disagree more. I'm bullish on Canadian stocks and think you should be too. Here are three reasons why I think investors should be long what might be the most hated bull market of all time.

A surprisingly robust economy

Most Canadian provinces are slowly reopening their economies with solid results so far.

Yes, the economy isn't back to normal quite yet. But various economic numbers are positive. Canada unexpectedly created nearly 300,000 jobs in May, a huge beat compared to expectations. Forecasters predicted a loss of approximately 500,000 jobs.

Other parts of the economy are bouncing back nicely as well. Restaurant visits are trending upward with many fast food places reporting busy drive-thru and take-out numbers. Long line-ups are the norm at many retailers. Even personal services like dentists and hairdressers are reporting business has bounced back nicely.

This is exactly what many said would happen, but it was hard to imagine such a future when everything looked so bleak.

A well-executed stimulus plan

I'll be the first to give Justin Trudeau and his ruling liberal Party credit. Ottawa's various stimulus plans have certainly helped save the economy.

As this stimulus money sloshes around the economy, Canadian stocks continue to rally. CERB payments have helped out countless borrowers, which is helping to support various restaurants, grocery stores, and other places where folks spend money.

Small business rent relief programs are great news for retail landlords. And federal help in the mortgage market has helped bank liquidity, freeing up cash for new loans.

Many Canadians are reporting they're coming out of this crisis in fine financial shape, which bodes well for economic growth when they finally have somewhere to spend that cash.

Canadian stocks are still undervalued

We must remember that stocks are cheap when compared to other types of investments.

There are still plenty of sectors that trade for between 10-15 times normalized earnings. Most REITs are still incredibly cheap. Bank stocks are also inexpensive. The retirement living sector also looks to be an interesting opportunity. Each of these sectors also offers multiple stocks with dividend yields of more than 5%.

Compare that to a government bond or a GIC. A 10-year Government of Canada bond pays a paltry 0.7% annually. GICs are a little better, but you're still hard pressed to find one paying more than 2% per year. And even then, you'll have to lock up your cash for five years.

Even safe sectors are relatively cheap. **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN) has quietly grown into a powerhouse with some 750,000 power, gas, and water utility customers in both Canada and the United States. The company also owns a smattering of power plants.

Algonquin is well recognized as a dividend growth machine. The company has raised dividends to shareholders each year since 2011. Including reinvested dividends, shares are up 22.56% annually over the last 10 years — enough to turn a $10,000 initial investment into something worth more than $76,000.

And yet, despite this excellent growth and a business that's largely virus proof, Algonquin shares aren't particularly expensive. It earned US$1.10 per share in adjusted funds from operations in 2019. Shares currently trade hands at just over US$14 each, putting us at just over 12 times adjusted funds from operations. That's hardly expensive.

The bottom line

I'm still a big bull today, and I think you should be too. Yes, Canadian stocks have already rallied significantly. But they're poised to go up even more. Do you want to keep missing out?

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