Worried About a Market Crash? Buy This TSX Stock Today

Description

The broader equity market has recovered just as spectacularly as it slumped in early 2020. The **S&P 500** fell 36% between February and March this year due to the dreaded COVID-19 pandemic. The index has risen 47% in fewer than three months and is now trading just 5% below record highs.

However, there is still a lot of uncertainty surrounding global economies. Several countries announced lockdowns to combat the coronavirus, and this impacted consumer demand to a large extent. As businesses were shut, discretionary spending spiraled downwards, completely decimating companies across sectors such as retail and travel.

Canada's unemployment rate is close to 14% and the Canadian government has announced a slew of measures to boost its economy. The GDP of most countries will take a hit, and then there is also the threat of a second wave of the COVID-19 impacting countries, which will be nothing short of disastrous.

You can take a look at one of Warren Buffett's favorite indicators, which is the market cap-to-GDP ratio. For Canada, this ratio stands at 115%, which indicates that the stock market is overvalued by 15%. So, is the market recovery sustainable? Just before the financial crisis of 2008, the Buffett indicator for Canada was 110%, and it fell to 56% when markets bottomed out.

If you think the Canadian equity market is overvalued, the market cap-to-GDP ratio for the U.S. is a staggering 152%. Markets will continue to remain volatile in the short term and might even experience another correction.

How do you protect yourself if the markets turn jittery once again? One way is by investing in sectors that are defensive and have a steady stream of cash flows. Utility companies such as **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) seem a perfect hedge against an economic downturn.

A top utility stock for your portfolio

Algonquin Power & Utilities is a diversified utility company in North America with $10 billion in total assets. It provides essential services to 800,000 customers and is growing revenue at a rapid pace.

According to estimates from Yahoo! Finance, the company's sales might rise from US$1.62 billion in 2019 to US$2.17 billion in 2021. Its earnings per share are forecast to rise from US$0.63 to US$0.77 in the same period. In Q1, Algonquin reported sales of US$464.4 million — a fall of 3% year over year. However, its adjusted EBITDA was up 5% at US$242.2 million.

Algonquin's rate-regulated business makes it a safe bet in an uncertain macro environment. The company continues to benefit from a predictable stream of cash flows, and it increased dividend payments by 10% in Q1.

Algonquin stock has a forward yield of 4.2%, and shareholders should expect a steady rise in dividend payouts due to the company's ability to drive earnings and cash flow growth. Algonquin has increased dividend payments every year since 2011. If you would have reinvested dividends, annual returns would have been about 22% in the last 10 years. This means a $10,000 investment in Algonquin stock 10 years back would have ballooned to $76,000 right now.

The Foolish takeaway

Utility stocks might be considered boring, but that's exactly what you need if the market tanks. As seen above, Algonquin is one of the few utility companies that is growing the top line at an enviable pace. It has the potential to increase investment wealth in the long term with limited downside risk.

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