Could a 2nd Wave of Coronavirus Cause a Market Crash?

Description

In the last few weeks, it seemed like nothing could stop the market recovery. Stock indices have come roaring back, and most have made up almost all that was lost in the market crash.

Despite many experts warning of a second wave of coronavirus in the fall (and a potential second peak to the first wave now if we open up too early), the market has continued to rally.

A lot of the news has been focused on the strong recovery the economy was going to make as it opened back up and the fact that the worst was behind us.

The thing is, though, it's very difficult to predict that the worst is behind us. And as we saw last week, when numbers of cases and hospitalizations start to rise, the fear that spreads through the market can make stocks fall very quickly.

There's no doubt a second coronavirus wave would have a significant impact. Even if economies weren't shut down, if consumers lose confidence in the economy or are just plain scared to participate in non-essential activities, the economy could suffer greatly.

Stocks to avoid in a market crash

Since the risk of another wave is quite big, I would caution investors against buying retail stocks. More specifically, I'd avoid those that sell discretionary items.

For example, a stock like **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) could face significant headwinds for the rest of the year.

This doesn't mean you should necessarily sell your Canada Goose stock if you already own some. However, if you were considering buying some, I'd consider waiting until there's more clarity on the industry's future.

A discretionary retailer like Canada Goose would, in theory, suffer through a normal recession when incomes become strained. So, in an environment like this, where more shutdowns aren't out of the question, and unemployment continues to remain an issue, Canada Goose could have significant problems.

Already this year, the stock is down nearly 50%, and that's even after the stock's nearly doubled from the bottom in the market crash.

And although it may look like an attractive proposition to buy at these prices, in my view, the risk is too high.

One thing that Canada Goose does have going for it is a manageable debt load. This should help the company avoid disaster. However, it doesn't change the outlook for the stock or its industry in the near term.

Stocks to buy ahead of a market crash

Just as there are certain stocks that will underperform in a market crash, there are specific stocks that will outperform.

Consider investing in defensive stocks like **North West Company** (TSX:NWC). North West is a consumer staple with locations in Canada, Alaska, and the Caribbean.

The company primarily serves remote communities, often with little or no competitors. Because these regions have small populations, North West is an essential partner in getting residents their food and household goods.

Plus, with the vertical integration the company has, it naturally can scale costs and increase profitability, which is a major reason why the business is so attractive.

Consumer staples are always great stocks in recession; however, considering North West's position in the economies it serves, the stock is one of the most reliable businesses on the **TSX**.

Plus, at its current market price below $30, the stock offers a significant dividend that's yielding more than 4.4%.

This makes North West the perfect defensive stock for investors to buy ahead of what's likely going to be another market crash.

Bottom line

Despite what's going on in stock markets, there are significant risks that remain in markets. Investors should be aware that the market could crash at any moment.

This way, you can stabilize your portfolio with certain stocks and avoid others.

CATEGORY

1. Coronavirus

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2. TSX:GOOS (Canada Goose)
3. TSX:NWC (The North West Company Inc.)

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