What a U.S. Dollar Crash Might Mean for Canadian Investors

Description

It sounds like a scenario for a post-apocalyptic movie — an event that seems plausible but could never actually happen. But what if the U.S. dollar collapsed? Could such a thing even happen? And if it did, what would be the consequences for Canadian investors? Let's examine the potential for this world-shaking possibility.

Thinking the unthinkable

The idea that there is no alternative to the U.S. dollar as the world's reserve currency is a commonly held belief. However, there are other currencies that could do the job, albeit against a backdrop of a global economic meltdown. Alternatives to the U.S. as the global reserve currency exist in the euro, British pound sterling, the Japanese yen, and the Chinese yuan.

Indeed, the cracks are already beginning to appear. The U.S. dollar's percentage of foreign-exchange reserves is now just 60% — a long way from an unassailable *de facto* world currency.

And, as Yale economist Stephen Roach recently warned, "That downtrend could gather momentum in the years ahead, especially with the U.S. currently leading the charge in de-globalization and decoupling. With America's share of reserves well in excess of its share in world GDP and trade, such a correction might well be inevitable in an increasingly fragmented, multi-polar world."

It's important for Canadians to bear in mind that our involvement in U.S. dollar trade weights are far from negligible. Additionally, together with Mexico, Canada makes up 25% of U.S. manufacturing trade. Against that backdrop, currency dominance would also shift towards other reserves. An upended hegemony would reorder the markets, crushing high-risk assets while bolstering safe havens.

The combination of a pandemic-bred recession and an ever-inflating cheap money bubble is certainly cause for concern. However, the very fact of a U.S. dollar crash would cause turmoil on the international stage. Other nations would likely try to shore up the dollar in order to protect their own currencies. Investors should therefore take it under advisement that portfolio diversification is essential.

How investors should play a global correction

Canadian income investors should pack their personal investment portfolios with only the most reliable dividend stocks. The pandemic has shone a light on the country's essential industries and their outperforming passive-income stocks. Names like **CN Rail**, **BCE**, and **Algonquin Power & Utilities** have stuck out in particular, with consumer staples plays like **Alimentation Couche-Tard** also proving resilient.

Algonquin is an especially formidable addition to a stock portfolio. This name is a play for all aspects of the green power mega-trend. That includes a tasty dividend yield fed by a [diversified utilities revenue stream](). Algonquin also brings the promise of steep capital appreciation via growth in the renewable energy sector. While this stock isn't the cheapest, it's a flexible name that would suit a range of investment styles.

Increasing fiscal power in Europe and Asia could mean that some kind of economic upheaval is all but inevitable. Coupled with the American U-turn on globalization, Canadians shouldn't bank on a smooth-sailing decade. Adding defensive stocks to a low-risk portfolio founded on sleep-easy passive income won't save the world. But doing so might just bring your financial goals a little closer.

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