Bank of Nova Scotia (TSX:BNS): Should You Buy the Stock if the Market Crashes Again?

Description

Talk of a market bubble is becoming more common among analysts and veteran investors.

Overbought market

The rally off the March 2020 low definitely caught most experienced investors by surprise. Industry experts point the finger at new investors looking to score big short-term wins. Many have certainly done well, especially if they entered the market in late March.

Valuations, however, are getting stretched. The **S&P 500** is trading at roughly 22 times anticipated earnings over the next 12 months — near a 20-year high.

Tech stocks continue to rise and the **NASDAQ** recently hit a new record high. Many other stocks are now back to where they started the year — or close to their levels reached before the crash. All this has occurred despite unemployment in the United States and Canada currently sitting above 13%.

Warnings from the International Monetary Fund, the WTO, and central banks around the globe appear to fall on deaf ears. German Chancellor Angela Merkel recently urged European Union members to work together to get a pandemic recovery program in place as Europe heads into its worst recession since World War II.

Next crash

Investors who missed the rally could get another chance to buy top stocks at cheap prices.

Why?

Governments can't afford to maintain emergency payouts to millions of people indefinitely. In Canada, September could prove to be the tipping point. People will suddenly realize they still have to pay deferred income taxes and property taxes. In addition, six-month mortgage deferrals are set to end and the banks might not be as willing to extend the programs.

If enough people are back at work, things might be fine. Otherwise, we could see a surge in loan defaults and a plunge in spending.

Another risk is the potential for renewed lockdowns driven by a second pandemic wave. Several U.S. states are already dealing with case spikes connected to aggressive reopening plans.

There is no guarantee another market crash is on the way, but a significant correction wouldn't be a surprise in the next six months.

Stocks to buy

Buy-and-hold investors could get a chance to buy some top dividend stocks with strong long-term potential and distributions that should be safe through the recession.

Let's take a look at one top Canadian bank stock that might be an interesting pick on a pullback.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) entered the crisis with a strong capital position. It will take a hit in both the Latin American and Canadian operations due to the pandemic lockdowns, but should perform well once the global recovery kicks into gear.

The stock traded above $74 in February and dipped below $47 in March. At the time of writing it trades at $57 and provides a 6.3% dividend yield.

Long-term growth potential in the Latin American operations is significant. Bank of Nova Scotia has extensive operations in Mexico, Peru, Chile, and Colombia. The four countries are home to more than 225 million people and represent the core of the Pacific Alliance trade bloc.

Unprecedented stimulus measures by global central banks could spark a strong rally in oil and copper markets. This would boost the economies of the Pacific Alliance members and help drive growth in the middle class.

Volatility should be expected in the coming months, but Bank of Nova Scotia deserves to be on your pullback radar.

When to buy?

The share price could slide back to $50 or even lower before the end of the year. At that level investors should start nibbling. Five years from now the stock could easily be back above $70.

In the meantime, the dividend should be safe, so you get paid well to ride out the tough times.

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