Will the Market Crash 2.0 Be Worse? It’s Not Too Late to Act

Description

The Canadian economy entered a recession in May, but that hardly had any impact on the **TSX Index**. Broader Canadian markets have just kept soaring higher and higher in the last three months, marking one of the most epic recoveries of all time.

Stock market crash 2.0

Importantly, the recent acceleration in coronavirus cases and lower corporate earnings growth outlook paint a gloomy picture for TSX stocks. To add to the woes, Canada became the first top-rated country downgraded by Fitch amid the virus outbreak last week.

It has already been an immensely volatile year for equities so far, but uncertainties will not wane anytime soon. The WHO (World Health Organization) recently warned that the worst is yet to come amid the recent speeding up of coronavirus cases.

Texas and Florida even reversed their re-opening orders amid a surge in cases. This again highlights that even as economies re-open after lockdowns, business activities might take longer to normalize.

Importantly, that makes the recent heroic rally, which was largely based on lockdowns ending and business activities resuming, unwarranted.

Gloomy corporate earnings and rising geopolitical tensions

Moreover, the second-quarter corporate earnings season will start in a few weeks. Canadian banks and energy companies, the two biggest sectors in the country’s economy, saw their earnings notably plunge in the first quarter. The upcoming quarterly releases could be even more detrimental and could weigh on their stocks.

Rising geopolitical tensions could further fuel the volatility in global equities. Emerging sentiment against China driven by the pandemic, growing uncertainties related to the U.S.-China partial trade resolution, and upcoming U.S. presidential elections all add up to more market volatility.

How to prepare for the upcoming market crash

So, how can investors be prepared in such uncertain markets?

Diversified defensive stocks play a big role amid the broader market volatility. Defensives such as utility stocks generally have a lower correlation with broader markets, so they are more prone to outperform in such situations.

Investors can consider one of the safest TSX stocks, **Canadian Utilities** (TSX:CU), to hedge a market crash. Its superior yield and relatively discounted valuation make it a solid bet in uncertain markets.

Utilities normally generate stable earnings irrespective of the economic conditions, unlike energy companies. That's why they are well placed to pay consistent dividends. Canadian Utilities stock notably outperformed broader markets and even TSX growth stocks during the 2008 financial crisis.

In the recent rally post-COVID-19 crash, it has managed to soar a handsome 35%.

Don't overlook gold

Another defensive asset that will remain in focus is gold. The traditional safe haven has stayed strong in the last few months amid slowing global economy and near-zero interest rates.

A continued rally in gold places gold miners in a sweet spot. Investors can consider Canadian gold miner **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) in the current situation. Its production growth amid lower costs notably boosted its bottom line in the last few years.

Gold miners generally have a relatively higher correlation with broader markets. However, the bullish outlook for gold makes miner stocks like Kirkland Lake attractive. Also, its discounted valuation and a strong balance sheet make it nothing short of a steal.

I think the recent rally has taken up the TSX stocks to a cliff, and upcoming quarterly earnings will pave the path for them going forward. Given the lingering uncertainties, investors can expect excessive volatility, which will put defensive stocks and gold in the limelight.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/07/23
Date Created
2020/06/30
Author
vinitkularni20