COVID-19: Here’s Where the Biggest Opportunities Still Lie on the TSX Index

Description

Regardless of what the economy is looking like, you shouldn’t attempt to time the market based on your economic projections. Like it or not, governments and central banks around the world are likely to throw everything but the kitchen sink at this crisis to improve the chances that this economy can heal.

That’s not the say that a bear-case scenario can’t propel us into a depressionary environment, dragging the stock market lower in spite of the unprecedented fiscal and monetary stimuli, though.

In any case, you should be prepared to spread your bets across a wide range of outcomes. Bet on a V-shaped recovery, a U-shaped one, a W-shaped one, an L-shaped one, and everything in between. You should prepare for whatever letter-shaped recovery that we could be in for. And with that, you should still swing at the opportunistic pitches that Mr. Market will throw your way today.

After the recent market carnage, there are still many battered stocks on the **TSX Index** that haven’t bounced back to the same extent as the broader indices. Think stocks of firms sitting at “ground zero” of this crisis that could fall under even more pressure if a second wave of COVID-19 cases were to arrive before an effective vaccine does.

The hardest-hit areas of the TSX Index reek of deep value

The office and retail real estate, restaurants, travel, leisure, energy, and financial industries have been decimated. And many stocks within such hard-hit industries are still sitting at ridiculously low (and potentially unsustainable) depths that seem to imply that the advent of a vaccine isn’t plausible.

Such stocks could explode upward if the assumptions of the bears are proven false. And if you’ve yet to bet on such “at-risk” COVID-19 stocks, now may be a great time to gain some exposure to industries that could have the most upside as the economy heals from the coronavirus crisis.

Consider office REITs as a contrarian play

We had promising vaccine news over the past few weeks, yet office REITs like **H&R REIT** (TSX:HR.UN) have barely budged. Why? The popular thesis out there is that work forces are unlikely to return to the office, even after this pandemic is over.

That means the advent of an effective vaccine probably won't propel the REIT back to its pre-pandemic heights because demand for office (and retail) properties are supposedly going to face permanent damage that will persist for years after this pandemic ends.

If you want to make money by being a contrarian, subscribing to the popular thesis probably won't help you. The unpopular thesis is that office (and retail) real estate will face some reversion to the mean after this pandemic concludes, and it's 100% safe to go outside without running the risk of contracting COVID-19.

Foolish takeaway

With H&R REIT trading at $9 and change, with a freshly-cut distribution (now yielding 7%), I'd say that even the slightest resilience in demand for office or retail properties will be enough to move the needle on the REIT.

And if we face a reversion in mean demand for such real estate? Watch out — H&R REIT could have a multitude of upside versus the TSX Index.

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