Get Ready: 5 Reasons a Second Market Crash Is Imminent

Description

A second market crash is still not out of the question for 2020. While there has been a significant amount of hype in North American stock markets, investors need to be cautious. There are multiple risk factors that could drastically challenge market momentum for the rest of the year.

Here are five major risks that could cause markets to plunge at any time.

Market crash risk 1: COVID-19

The first and most obvious risk factor is the surge of COVID-19 cases across the world (and especially in the U.S.). Last week, it recorded its largest single-day increase in cases. In fact, California just reinstated its second state-wide shutdown.

The reality is, as long as there is no vaccine (this still could take years to develop and fully distribute), the coronavirus will continue to hamper a global economic recovery. As long as economies are troubled, it is hard to see how stocks can continue to go up. Further centralized shutdowns could cause markets to plunge again.

Risk 2: Government stimulus subsides

The second risk comes from the easing of central bank and government stimulus policy. While quantitative easing programs, low interest rates, and various forms of income stimulus (like the CERB) are keeping businesses and individuals afloat, they can't be permanent.

At some point, governments will have to wean economies off of fiscal and monetary support. Most states can't afford to do this forever (consider Canada's projected $343 billion deficit). Yet, a pullback in easing has been ugly for past markets (considering late 2018), and markets could plunge again as a result.

Risk 3: Market valuations

Third, stocks just appear to be pricey. Despite seeing one of the worst economic recessions in history, stock markets are near all-time highs. Indexes continue to be buoyed by high-flying technology stocks like **Shopify**.

Of course, this has created concerns over a new tech bubble. Since they command such a high weighting in the indexes, any earnings disappointment (not impossible — just think of **Netflix** recently) could lead to another drastic market sell-off.

Risk 4: Geo-political risks

Fourth, tensions between China and the U.S. are escalating. It appears that China is using the distraction of the pandemic crisis to expand its influence in Hong Kong and throughout the South China Sea. As a result, we may once again see a further breakdown of economic and political relations between these two superpowers.

The last thing markets need right now is another trade war. An escalation in tensions could cause markets to plunge.

Market crash risk 5: U.S. elections

Finally, markets have yet to factor in concerns over the U.S. election in November. Markets hate uncertainty, so market volatility ought to heat up at as the campaign battle intensifies. In the fall, markets may begin to react alongside poll results. Any surprise could create another temporary market crash.

Be ready for more volatility

All this to say, get ready for more market volatility. While government stimulus and COVID-19 vaccine progress is offsetting the risk of another “major” (30% or worse) crash, a plunge of 10% to 15% is not unreasonable.

Investors need to have a diversified portfolio of stocks that are adequately balanced (income, safety, cyclical, and growth) for any market scenario.

Prepare for a market crash by owning this stock

One **TSX** stock that should hold up in a bull or bear market is **Northland Power** (TSX:NPI). It operates a 2.6 GW portfolio of off-shore and on-shore wind, solar, and biomass/gas powered projects, as well as a regulated electricity utility.

Regardless of the above risks, Northland should continue to benefit from strong secular demand for renewable power across the globe

. It currently has a 1.1 GW development pipeline and it continues to diversify and grow its asset/cash flow base. Last quarter it brought a number of new projects online, so investors should see a nice uptick in cash flows this year.

Northland pays a 3.3% dividend, has a well-managed balance sheet, stable cash flows (average PPA of 10 years), and ample growth opportunities. This is one stock you can buy/hold and still expect great long-term returns in any market.

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