Should You Worry About Another Stock Market Crash in 2020?

Description

While the U.S. markets have already crossed their pre-pandemic levels, the S&P/TSX Composite Index is nearing the pre-pandemic level. S

What leads to a market crash?

The stock market generally reacts to news that is unexpected, because investors have already price in their expectations. It is very difficult to time a market crash. If larger audiences can predict a crash, they will already price in their fears. Hence, there would be no panic selling.

For the stock market to crash, there has to be a significant decline of 20-30%. In March, the S&P/TSX Composite Index fell 34%, as the government announced a lockdown, which created a panic.

As things settled and people adjusted to the new stay-at-home culture, there was a sudden spike in stocks that supported this culture. They emerged as virus stocks and rose to new highs. Among them were e-commerce stocks like **Shopify**, logistics stocks like **Descartes Systems**, and transportation stocks like **Cargojet**. They led the stock market rally. However, pandemic disrupted certain sectors, like airlines, real estate, and retail. Stocks of **Air Canada** and **RioCan REIT** have recovered slightly, but they are still down more than 40% year to date (YTD).

The stock market recovery was also backed by Prime Minister Justin Trudeau's $202 billion fiscal stimulus package. If analysts' expectations come true and there is another market crash in 2020, it could be because

- There is a second wave of the pandemic;
- The prime minister of a country is infected with the virus;
- The government withdraws the fiscal stimulus package abruptly; or
- There is a sudden wave of credit defaults and payment defaults, which is too much for the country's financial system to handle.

Should you worry about another market crash?

The stock market has now adjusted to the pandemic. Even if there is a second wave of the pandemic, investors are prepared for it. You could see another surge in the virus stocks. But this time, the surge could be slower than it was April.

The Canadian government has put in place a package for economic recovery. Some of the cash benefits end in September, but some are being extended until December. The extended benefits will give the sectors that are badly hit by the pandemic more time to recover.

Many companies, such as RioCan and **SmartCentres**, have already made a provision of $19.1 million and $15 million, respectively, for lost rent and credit losses. Investors have already priced in for these losses. All companies have increased their liquidity to prepare for challenging times and a looming recession.

Looking at the pace at which the economy is recovering, another stock market crash seems unlikely at the moment. But as I said before, if you could predict a market crash, then the market won't crash.

Save this stock for challenging times

One stock that can protect you from a market crash and give you stable dividends even in challenging times is **Enbridge** (TSX:ENB)(NYSE:ENB). It is North America's largest pipeline operator and earns over 80% of its revenue by transporting oil and natural gas.

The company earns stable cash flows, which it uses to build more pipelines and give dividends to shareholders. It has been growing its dividends at an average annual rate of 14% in the last 10 years. The pandemic-driven lockdown has impacted oil demand and, therefore, oil supply. Hence, the stock fell by 40% in March. But it has partially recovered and is down 16% YTD. The reduced stock price has increased its dividend yield to 7.46%. When the economy recovers and oil demand rises, Enbridge stock will surge.

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