The TSX Is on a High: A Market Crash Is Coming

Description

Investor confidence is back, and players are having a burst of energy. Some market analysts, however, are not feeling the high, despite the rally. Instead, they fear the coming of a stock market crash. The string of highs might not be sustainable, because something is not right.

The S&P/TSX Composite Index crashed in March 2020 but has since kept rising to recover the losses from the COVID-19 shock and plunging oil prices. As of this writing, Canada's primary stock exchange has climbed 50% (from 11,228.50 to 16,805.88) and is only 2% down year to date.

On the labour front, the country has reclaimed more than 50% of the three million jobs lost in March and April. Based on the cumulative 1.7 million jobs added to the economy from May to July, it's evident that Canada is starting to recover. So, what are the reasons for the pessimism?

Historical declines

The TSX experienced its worst drops in 1990 (-17.96%) and 2008 (-35.03%), while recording its biggest gains in 1999 (+29.72%) and 2009 (+30.69). Note that the index posted a magnificent comeback following the 2008 financial crisis. The market crash in 2020, however, is different because the trigger was an invisible enemy.

COVID-19 is a destructive force that forced global economies to shut down. In response, governments pumped in money through various economic stimulus packages. The result is euphoria among investors and strong demand for stocks. Billionaire Mark Cuban said it created a stock bubble that could be prolonged but will eventually burst.

Unusual feature

One unusual feature today is the wide divergence between the stock market and economic realities. Equities are surging, despite worsening economic conditions. It's the reason for the doom-and-gloom predictions. Aside from the lingering coronavirus, a political storm and trade war are brewing. These factors can upset the market and cause a free fall.

Stay calm

Some investors fight fear and mute the noise by investing in crash-proof stocks. **Capital Power** (TSX:CPX) is a $3.07 billion independent power producer (IPP) that can endure economic downturns. The IPP's Q2 2020 earnings report is proof.

Capital Power's president and CEO Brian Vaasjo said COVID-19 had minimal impact on cash flow generation. He credits the combo of the strong operating performance of the company's facilities and highly contracted and diversified portfolio of generation assets.

While many companies are slashing dividends to preserve capital or boost liquidity, Capital Power announced a 6.8% dividend increase effective in the third quarter of 2020. It's the seventh consecutive year the utility stock has raised dividends. The current yield is a juicy 6.99%.

Capital Power is growing its power-generation capacity due to several projects in the pipeline. The largest wind facility in Alberta, Whitla Wind, will be operational at the end of 2021. The 40.5-megawatt Strathmore Solar project in Alberta is proceeding. It will be the company's first solar development project in Canada.

Defensive position

Fear consumes investors when there is news of a market crash. The immediate reaction is to pull out and flee. Instead of losing the propensity to earn, risk-averse investors will prepare and move to defensive stocks.

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2. Investing

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