3 Reasons This Stock Market Crash Could Be Brutal

Description

Investors witnessed a flash stock market crash this week. Technology stocks led a steep decline across equities. **Shopify**, for instance, has lost 18% of its value since Wednesday alone.

Investors are now bracing for another bear market like the one we experienced in March. Here are three reasons why those fears are justified.

Valuations

The run up in stock prices over the past six months has been unprecedented. As I write this, the country's stock market is worth 110% of Canada's gross domestic product (GDP). The so-called Buffett indicator is flashing red.

Technology stocks, in particular, are trading at stretched valuations. Despite its recent crash, Shopify is trading at a price-to-sales ratio of 52. Investors may have overbought technology stocks, putting the market in a precarious position.

Recovery slowdown

Even after this week's stock market crash, the **TSX Index** is trading just 8.6% below its all-time high. Meanwhile, the economy has lost value at an annualized rate of 38.7% between April and June, according to StatCan.

Unemployment is still at 10%, which is far higher than the average rate of 7.62 percent from 1966 until 2020. Meanwhile, companies face a downturn in earnings for the rest of this year.

The economy is undoubtedly in a better position now than at the height of the crisis. However, the recovery has slowed down to a crawl and investors shouldn't expect the road ahead to be smooth.

End of stimulus

Canada has spent roughly 15% of its GDP in benefits and stimulus packages over the past six months. Banks, businesses, consumers and households have all had direct cash handouts to prevent economic collapse. However, now that the health crisis has been somewhat mitigated and the economy is on the mend, these benefits are being withdrawn.

It's easy to see how the end of a $2,000 monthly subsidy could impact consumption and business profits across the nation. In fact, many applicants spent their benefit cash on buying stocks, so the withdrawal could compel them to sell their holdings as well.

Altogether, it seems like a perfect storm is brewing on the horizon and investors should brace for a brutal stock market crash.

Prepare for a stock market crash

Robust defensive stocks like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) are probably the safest assets for investors right now. This heavyweight shrugged off the stock market crash in March and is down just 2.4% year-to-date. Meanwhile, the company has also managed to sustain its dividend yield at 3.64

Fortis provides the most of essential service: electricity. Consumers need to keep the lights on regardless of what happens to the economy. That makes utility giants like Fortis stock a safe haven during crises.

The stock currently trades at a reasonable valuation. The price-to-earnings ratio is 19.7, while price-to-book value is 1.36. If you're worried about another stock market crash, adding this stock to your portfolio is probably a great idea.

Bottom line

Another stock market crash could be brutal. Investors can use robust stocks like Fortis to limit the downside.

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Date
2025/07/26
Date Created
2020/09/04
Author
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