Why Another Market Crash Is Coming

Description

September has been a soft month for the markets in North America with stock prices struggling during the past couple of weeks. But the real danger lies ahead in that another market crash may be coming soon. In March, what sent the markets into a panic was the emergence of COVID-19, and it would be just weeks after the World Health Organization declared a global pandemic that the markets bottomed out.

And while the markets have largely recovered since then, a second wave of COVID-19 cases in the fall may elevate those fears once again. With many schools around the world reporting outbreaks, there's the potential for a significant uptick in cases in the coming weeks and months.

If there's another large outbreak, the economy could once again be shut down. Ontario premier Doug Ford is concerned about the rising case numbers in his province and said this week, "We will take every step necessary, including further shutdowns."

There were significant shutdowns in North America during the second quarter that caused some companies to close up shop for good, while many others simply reported dreadful results due to store closures and people scaling back on expenses in an effort to conserve cash.

The rise in COVID-19 cases along with mortgage deferrals expiring and the Canada Emergency Response Benefit coming to an end can create a situation where there's a lot more pessimism and fear in the economy. And investor emotions and outlooks can drive the markets. A negative outlook can lead to significant selloffs, and that means high-priced valuations will come crashing down.

What can investors do?

Even though a market crash may be inevitable, that doesn't mean investors need to pull all their money out of the markets. There are investments that will stand the test of the time and that will continue climbing over the long term.

A good example is **Royal Bank of Canada** (TSX:RY)(NYSE:RY). One of the top banks in the country, it's one of the safer investments you can hold in your portfolio. However, it wasn't immune to the March market crash, as back then it hit a new 52-week low of $72.

RBC released its most recent results on August 26, for the third quarter, which was for the period ending July 31, and it was already starting to show signs of recovery. Net income of $3.2 billion was more than double the $1.5 billion that the bank recorded back in Q2. Revenue of $12.9 billion was also up 25% quarter over quarter due to greater insurance and trading revenue.

The improved results don't mean that the worst is over for the big bank, but it's a great example of how quickly it can recover right along with the economy.

In addition, the bank stock is a good bet to continue paying a dividend. Today, investors receive quarterly payments of $1.08, which yields 4.4% annually. And with those payouts likely to increase over the years, there's plenty of incentive for investors to buy RBC stock and hang on to it for the long term.

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