Stock Market Crash 2.0: On the Edge of a Huge Drop

Description

If you were to believe analysts' predictions, the chances of a stock market crash 2.0 are high. Investors who went through several downturns in the past say telltale signs exist that stock markets are on the edge of a huge drop.

Should people start unloading stocks and seek the safety of cash? Many are thinking of bailing out when the correction comes. If you understand the market dynamics and invest in the long-term, you will stay on because markets rebound historically. However, don't try to pick a market bottom or top because you can't.

Signs of the times

The events leading to the 2008 financial crisis and the 2020 version are different. There was mistrust across the entire financial system following the bankruptcy of Lehman Brothers. This year, it's more abrupt, and the root is a health crisis. Solving the COVID-19 pandemic is in the hands of medical experts, not financial managers.

However, the 2020 recession due to coronavirus could be more profound than in 2008. Governments are intervening with massive stimulus packages. Canada's spending on its COVID-19 Response Plan replaced the lost income of affected workers. The income support measures are buoying consumer spending, but bloating deficit to unprecedented levels.

Deeper recession

The International Monetary Fund estimates a 3% decline in global GDP in 2020 versus the 0.1% drop in 2009. If the forecast comes true, it would be the worst economic crisis since the Great Depression of 1929. The key to variable among all is the containment of COVD-19. Unfortunately, lockdowns might return with the resurgence in cases.

August 2020 marked the fourth consecutive months of gain in Canada's labour market. However, the pace of growth slowed down. The economy added 246,000 jobs compared with May (290,000), June (953,000), and July (419,000). But on the overall, the employment number is within 1.1 million of pre-corona levels.

Rock-solid investment

If you're not pulling out of the market despite the impending crash, take a defensive position. When the environment is teeming with uncertainties, **Fortis** (TSX:FTS)(NYSE:FTS) is the go-to stock. This $24.99 billion utility company's core investment thesis is simple – stable income and discernible long-term growth.

Fortis has consistently reported years of earnings growth and has increased dividends for 45 consecutive years. You must know that this premier utility company derives almost 100% of earnings from long-term or regulated contracted operations. Thus, cash flows are stable because there's protection from fluctuating commodity prices.

Regulated utilities have a competitive advantage over other asset classes. The business model is low risk with a predictable cash flow profile. Fortis' $17 billion of organic rate base investment should translate to a healthy long-term EPS growth of 5% to 7% annual compound annual growth rate (CAGR) through 2023.

Although the 3.79% dividend is modest, it's not a dividend trap. The payouts are safe regardless of the market environment. Fortis is a blue-chip stock with bond-like features.

Economic relapse

The main worry of economists is an economic relapse in the months ahead if COVID-19 cases surge again. Sadly, the situation will not be the same for all industries. Many businesses will fall by the wayside will not be part of the recovery.

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cliew