The Canadian Housing Market Crash Could Be a Nightmare for Investors: Here's What You Can Do Right Now

Description

In one of my recent articles, I'd highlighted how investors' nightmare about Canada's housing market crash could turn out to be true very soon. The housing market collapse expectations are based on recent negative signals we get by observing the Canada Mortgage and Housing Corporation's (CMHC) recent report.

The implication of a housing market crash could be disastrous for many investors who have invested their hard-earned money in real estate or companies with direct exposure to the housing market, such as large Canadian banks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). While CMHC's latest report claims that the Canadian housing market is moderately vulnerable, I find the vulnerability to be much higher. Let me explain why.

COVID-19 affected the Canadian housing market

Earlier this year, when COVID-19 suddenly started spreading across Canada at a fast pace, the government had no choice except to impose restrictions. The move arguably helped the government by some time to better prepare to handle the situation. It had a long-lasting negative impact on most businesses. The country-wide shutdowns brought most businesses to a standstill; the businesses that didn't fall under the essential business category took an even worse hit. Many such businesses are still struggling to recover from the damage caused by the pandemic.

Millions of people lost their full-time work, as the pandemic forced businesses to cut their employee strength and save costs. A higher unemployment rate is gradually leading to a situation where people don't have enough money to spend on consumer discretionary items, luxury items, and real estate. That's one of the factors that could increase the vulnerability in the housing market.

Why the data is not reflecting a crisis

The Trudeau administration has tried to support Canadians who lost their jobs due to the pandemic by proving them federal aid. However, the government is paying dearly for it. To give you a rough idea, Canada has shed a whopping $81.64 billion on the Canada Emergency Response Benefit scheme alone. The government might not afford to bear the burden of more relief packages for long.

We might have to wait for a couple of quarters more to assess the coronavirus's real damage to the economy and the housing market, as the government relief packages come to an end.

Here's what you can do right now

The first step to avoid getting trapped in the housing market crash would be to reduce direct or indirect exposure to the housing market. For example, Royal Bank of Canada and Toronto-Dominion Bank have large exposure to the housing market. If you own their stocks, then a housing market collapse can put your invested money at high risk.

Moreover, the Canadian banking industry is not going through a very good phase right now. Despite a rise in their income from the capital markets segment, RBC and TD Bank have registered massive declines in their core banking operations in the last couple of quarters. And the prolonged pandemic is adding more uncertainties to their business. "The economic recovery will not be without its challenges, and much remains uncertain in the near term," TD Bank said in its latest quarterly earnings report.

Conclusion

As of October 13, RBC stock and TD Bank stock have lost 5.2% and 15.5% year to date, respectively. But their shares have risen between the range of 5-7% in the last three months. I don't see a sustainable recovery in their shares unless their core banking operations return to normal. Also, any news or data confirming a housing market crisis might trigger a sell-off in Royal Bank of Canada and TD Bank shares.

Instead, you could invest your money in any one of many tech companies that have seen a sharp rise in their business growth amid the pandemic. Given the risks in the housing market, even energy companies might be a better buy compared to bank stocks at the moment.

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