A Bigger Market Crash Than COVID-19?

Description

Stunted economic growth and financial hardships aren't the only potential triggers for the next market crash. Climate change is another risk.

According to Bank of Canada Governor Tiff Macklem, the financial system's stability and the domestic economy is under threat from climate change, and heavy losses for financial institutions could ensue if this global problem is left unchecked.

A semblance of recovery

Governor Macklem believes it will be a long time before job losses in jobs and work hours return to pre-corona levels. However, Canada's labour market is within 780,000 of its February 2020 level following the addition of 378,000 new jobs in September.

Managing the COVID-19 pandemic's financial risk is more critical than ever, according to Macklem. The central bank is closely monitoring the housing market and it appears the speculations about rising prices are driving the markets higher.

Watching for critical signs

The Bank of Canada is watching whether home buyers are taking on excessive debt relative to their income. It might use several macro-prudential tools if too many Canadian households become dangerously over-leveraged. The past mortgage-interest stress test proved the tools were effective.

Despite reducing economic risks to companies and households, Macklem fears the same financial lifeline, namely that credit flow could introduce risk in the coming months. The low interest scenario or financial bridge over the pandemic could strain the debts of households and businesses.

Macklem fears the historic federal spending could plunge the national debt further. Also, low interest rates might eventually heat the housing market, which was already under observation by policymakers before the pandemic.

However, Macklem said that if not for the fiscal and monetary policy actions, the economic devastation of COVID-19 could be so much worse than it is today.

Prioritize green energy sources

Power companies should embrace green energy sources if they were to help combat climate change. They should channel more funds to greener energy than carbon-heavy coal and natural gas. On the stock market, investors should be supporting renewable energy stocks.

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) is a pure Canadian renewable energy play. The $12.07 billion utility company is highly-diversified in electricity generation, transmission, and distribution.

It focuses on delivering 1,600 megawatts of installed capacity of clean energy from a portfolio of long-term contracted hydroelectric, solar, and wind generating facilities.

Analysts expect Algonquin to grow its revenue by 11.3% and 26.6% this year and the next. The estimates make it one of the fastest-growing utility companies on the **S&P/TSX Composite Index.** Investors can ride on this building momentum while the stock price is still low ($20.39 per share).

Algonquin is gaining 14.9% thus far in 2020 and offering a respectable 4.05%. More importantly, impressive EPS growth is appealing to investors. This utility stock should be a clear winner down the road.

Conclusion

Climate change poses a risk to financial markets. Volatile and extreme weather events could potentially have an impact on production chains, food costs, and the insurance sector. Other economic pillars such as the mortgage industry could be affected as well.

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