Is the Canadian Stock Market About to Crash? 3 Reasons to Worry

Description

The Canadian stock market is in a tough spot. Just look at the **S&P/TSX Composite Index**.

After a steep plunge in March, the index is now trading near all-time highs. That's great, but the underlying conditions look terrifying.

According to many experts, the stock market is ripe for a correction.

"Markets have historically loved fat margins, low inflation, stability and, by inference, low levels of uncertainty," said Jeremy Grantham. "This is apparently one of the most impressive mismatches in history."

Looking at the Canadian stock market, there are three specific reasons to worry.

Fossil fuels are dead

Canada is reliant on fossil fuels. They don't dominate the economy, but they're the tail that wags the dog.

"The production and delivery of oil products, natural gas and electricity in Canada contributes about $170 billion to Canada's $1.8 trillion gross domestic product, or just under 10%," reported *Energy Exchange*.

More than one million jobs are either directly or indirectly tied to the industry.

The Canadian stock market is also dominated by fossil fuel producers. The problem is that oil demand is now in secular decline. A new report from **BP** suggests that the world has already surpassed peak oil demand.

“The scale and pace of this decline is driven by the increasing efficiency and electrification of road transportation,” BP’s report stated.

It’s a long road down from here. Multi-billion-dollar operations like **Imperial Oil** (TSX:IMO)(NYSE:IMO) will face permanently challenging conditions. That means more than 10% of Canada’s economy and stock market will struggle to succeed.

Real estate is a mess

The coronavirus pandemic hit some sectors harder than others. One of the weakest areas of the stock market has been real estate. Just look at **Brookfield Property** (TSX:BPY.UN)(NASDAQ:BPY), which trades at *half* its stated book value.

The worst is still to come. Big banks have been warning about a Canadian housing bubble for years. That was in the residential portion of the market. Working from home and a shift to e-commerce now threaten office and retail properties.

Major cities like Toronto and Vancouver have built immense wealth due to skyrocketing real estate prices. If the stock market is any suggestion, this lifeline could soon be a thing of the past.

The hidden stock market weakness

There’s one aspect of the Canadian economy that few people are paying attention to: currency.

For years, the loonie has followed the swings and gyrations of the oil markets. In 2012, when oil was above US$100 per barrel, one Canadian dollar could be swapped for one U.S. dollar. Now that oil prices are 50% lower, one Canadian dollar is worth just US$0.75.

As oil struggles in the decade to come, more pain will arrive.

A saving grace for the loonie has been real estate. Canada didn’t experience a housing collapse in 2008, but the U.S. faced extreme challenges. If a real estate collapse arrives this year, one of the Canadian dollar’s key support systems may evaporate.

Canada’s stock market is entering a risky phase, but the impacts on your personal life could be more profound.

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