The Stock Market Dipped 2% on CRB Delays: Time to Buy This Stock

Description

If you think it's difficult to predict the stock market, think again. Since the pandemic struck in March, the stock market momentum has been in sync with the government stimulus package, especially the Canada Emergency Response Benefit (CERB) and the Canada Recovery Benefit (CRB). These cash benefits are for the general public and cover millions of Canadians. Hence, delays in CRB payments impacted the stock market.

The stock market momentum

The **TSX Composite Index** dipped 33% in less than three weeks in March when the pandemic struck. The Justin Trudeau government acted fast and launched the CERB that paid $2,000 to Canadians who were out of work, irrespective of their income. This increased Canada's household disposable income by 10.8% in the second quarter.

The high liquidity didn't increase household spending (which fell 13.7%), but increased household saving rate to 28.2% from 7.6% in the previous quarter. As the banks have near-zero interest rates, people were putting their benefits money in the stock market. Hence, the **TSX Composite Index** rallied 30% between April 1 and September 2.

This investment was not evenly distributed, however. The first rule of investing is to buy stocks of companies that are around you and whose products and services you often use. Hence, technology and logistics stocks flourished as people were using them more. **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Kinaxis** (TSX:KXS) were the top gainers, growing 154% and 80%, respectively.

But September saw some correction as CERB was coming to an end, and there were a lot of grey areas around CRB. People cashed out their money as they were unsure if they will get the new CRB. The TSX Composite Index fell 5.3% between September 2 and 23, with Shopify and Kinaxis down 18.4% and 16%, respectively.

Once again, the stock market rose 4.7% from September 24 to October 9 on the CRB announcement but fell 1.7% from October 12 to 22 on CRB delays.

Two stocks to buy in the current stock market dip

The CRA has fixed the issues with the CRB, and most Canadians might get their benefits payments next week. That week will also mark the start of third-quarter earnings. The stock market will rally once again. But which stock will benefit the most from this rally?

The stock price growth of Shopify and Kinaxis has become range-bound as these stocks are overpriced. They grew during the lockdown. This doesn't mean they won't grow. While they will grow in the long term, the exponential growth from the pandemic would ease.

The CERB-driven stock market rally was skewed toward technology and logistics. The CRB-driven rally could be skewed toward real estate and other sectors that would stand to benefit from the reopening of the economy.

SmartCentres REIT

As the economy normalizes, the fundamentally strong stocks would see a recovery. For instance, **SmartCentres REIT** (TSX:SRU.UN) would see recovery as retail shops and restaurants reopen. If its tenants are back in business, SmartCentres would be able to collect more rent. As the risk of default eases, its stock would grow.

A similar thing happened with **Restaurant Brands International**, which owns food chains like Burger King, Popeyes, and Canadian coffee chain Tim Hortons. The stock fell 39% in April as the lockdown closed all food outlets. As the economy reopened, it started earning revenue from takeaways instead of dining in. The stock recovered from the March sell-off.

SmartCentres is currently trading at a 30% discount from its average trading price of above $31. The REIT has maintained its dividend rates throughout the pandemic, which has increased its dividend yield by 8.6%.

This is a good time to buy the stock as you can lock in a high dividend yield and also benefit from capital appreciation. If the stock recovers to its average trading price, your investment would surge by 50%.

Investor corner

If you invest $1,000 in SmartCentres, you will lock in an $86 annual dividend income for a lifetime unless the REIT announces dividend cuts. You can also earn $500 from capital appreciation.

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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:KXS (Kinaxis Inc.)
3. TSX:SHOP (Shopify Inc.)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Author
pujatayal