Stock Market Selloff 2020: The Anticipation Is Building

Description

Will there be another stock market selloff in 2020? The majority of stock markets worldwide posted record-highs in celebration of Joe Biden's victory in the U.S. In Canada, the **Toronto Stock Exchange** (TSX) closing on November 6, 2020, was its best week in nearly seven months, although the index is still down 4.57% year to date.

The election fever is over, so it's back to the deadliest risk factor. Anticipation remains high that the full impact of the pandemic could kick in soon to erase market gains.

Health and economic crisis

The pandemic's end game is nowhere in sight. Coronavirus infections are rising again and could pose serious problems. Apart from the return to lockdowns, a downside awaits if late-stage trials for a COVID-19 vaccine fails.

However, the pandemic isn't the only concern, however. In the coming months, consumer debt, mortgage delinquencies, and rent defaults might hit alarming levels. Canada's economy is churning only because of stimulus packages and unemployment benefits.

The emergence of the second round of infections in major Canadian cities increases the chances of severe health and economic crisis. If the government reinstate lockdown restrictions to contain COVID's second surge, it will slow down recovery. Also, the stock market's rebound will stall.

Economists' forecast

In a recent poll of 50 economists by Reuters, the forecast is that the economy will shrink by 5.9% this year, the worst performance in at least 60 years. However, it will recover by 5% in 2021 and 2.8% in 2022. For inflation rate, the average forecast is 0.7%, 1.6% and 1.9% in 2020, 2021, and 2022, respectively.

The unemployment rate is likely to stay above pre-corona levels until 2023. Meanwhile, expect the Bank of Canada is to maintain low-interest rates through 2023 too. Governor Tiff Macklem hints that the central bank is open to lower interest rates below zero. Economists, however, warn the positive impact on economic growth is marginal.

Recession-proof investment

Investors afraid of a looming market crash can seek the safety of recession-proof stocks to safeguard income. Since the pandemic could stretch for months, your investments must be in companies that can survive the challenging circumstances ahead.

Consumer stock **Empire** (TSX:EMP.A) and owner of retail giant Sobeys show its defensive qualities in the pandemic. Although the dividend yield is a modest 1.39%, investors are gaining 28.58% year to date. Also, analysts forecast the price to further appreciate by 17%, from $38.48 to $45, in the next 12 months.

Aside from Sobeys, its primary income source, Empire also own top brands Lawtons Drug Store, FreshCo, Foodland, IGA, Safeway, and Thrifty Foods. In the Q1 fiscal year 2021 (quarter ended August 1, 2020), Empire posted net earnings of $191.9 million or a 47% increase versus the same period in the fiscal year 2020.

Now is the best time to take a position in Empire. According to President and CEO Michael Medline, the momentum at all levels of the company is remarkable. The recently launched three-year growth plan, Project Horizon, focuses on core business expansion and e-commerce acceleration.

Stand on solid ground

Reassess your investment portfolio to see if you need to stand on solid ground. A consumer staples stock like Empire will see growth despite the economic downturn.

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