Stock Market Crash 2021: Is it Inevitable?

Description

The **S&P/TSX Composite Index** rose two points on the second-last day of 2020. Canadian stocks were hit with turbulence in February and March as the severity of the COVID-19 pandemic became apparent. Since then, the TSX Index has roared nearly all the way back. Opportunistic investors have been rewarded for buying low back in the early spring. However, investors should be wary in this overheated environment. Is a market crash inevitable in 2021? Let's discuss.

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Why a stock market crash is coming in 2021

Back in September, I'd discussed some of the reasons a stock market crash was dead ahead. At the time, Canada's economy had just partially bounced back from the lockdowns in the spring. Fast forward to late December, and we are once again dealing with heightened restrictions and lockdowns in major metropolitan areas. Canada's economy performed better than expected in October, but on the ground, there are deep wounds from the pandemic. Moreover, many more Canadians are dependent upon financial aid from the federal government. Millions of workers in the service sector have been devastated in 2020.

Despite these dire economic conditions for broad sections of the population, North American markets have thrived. Governments across the developed world have poured trillions to rescue financial markets. This loose monetary policy and aggressive stimulus has boosted valuations, but markets also look dangerously overheated.

The so-called Buffett Indicator has hovered dangerously high heading into the final weeks of this difficult year. Canadians looking for discounts on the TSX are mostly out of luck. A stock market crash would not be a surprise with these ripe conditions.

Where should you invest to protect your portfolio?

Timing a stock market crash is a fool's errand. However, investors can look to prepare themselves for the inevitable pullback. Some of my favourite targets during the pandemic are companies that offer essential services.

Fortis (TSX:FTS)(NYSE:FTS) is one of my top defensive stocks on the TSX. This St. John's-based utility holding company has seen its stock rise marginally in 2020. Shares have dropped 2.8% over the past three months. Of course, the most appealing part of Fortis is its stability and impressive dividend history.

In Q3 2020, Fortis announced that it would increase its quarterly dividend to $0.505 per share. This represented the 47th consecutive year it has increased its dividend. It aims to post annual dividend increases around 6% through 2024. Fortis is well on its way to becoming a dividend king — achieving at least 50 consecutive years of dividend hikes.

Empire Company has executed a growth strategy that has made it a stalwart in the grocery retail sector. Grocery retailers have proven to be extremely resilient after the spring market crash. Shares of Empire have climbed 16% in 2020 as of close on December 30. Moreover, the stock last possessed a favourable price-to-earnings ratio of 14. It offers a quarterly dividend of $0.13 per share, which represents a modest 1.5% yield.

The flip side of a stock market crash

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Naturally, investors also need to consider alternatives. Friendly monetary policy, record stimulus, and an economy emerging from this pandemic may also generate a positive outcome for the market in 2021. This could stave off a stock market crash and reward patient investors.

Stocks that I'd zero in on for growth include emerging technology beasts like **Kinaxis** and even top financial stocks like **TD Bank**.

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