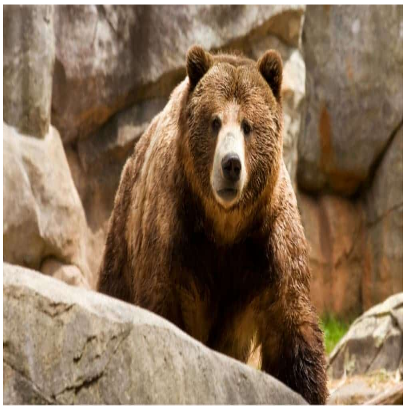

4 Reasons a Bear Market Could Be Around the Corner

Description

Canada's main stock market index rose for a 10th consecutive week to close at 19,472.70 on May 7, 2021, a record high. Investors believe the weak jobs numbers in April will prompt the federal government to continue its easy monetary policy. However, people shouldn't be complacent because a bear market could be around the corner.

The **TSX** is not out of the woods yet. Four factors are likely to rock the boat. If they do, it could trigger a sudden market correction similar to the March 2020 sell-off.

1. The fourth wave of COVID-19

Health experts warn that the fourth wave of COVID-19 could strike at any time if the government lift restrictions too quickly. Vaccines and careful reopening of the economy could prevent a dire surge. However, the sadder news is that the seasonal coronavirus could be here to stay.

The third wave started in March 2021, yet several provinces continue to struggle in bringing the infection cases down. Physician and epidemiologist Dr. Nitin Mohan said lifting the bulk of restrictions before Canada boosts vaccination rates and achieves high levels of protection in hot spots could spark a fourth wave.

2. Further job losses

The variant-driven third wave of COVID-19 was the reason why the unemployment rate rose to 8.1% in April 2021. Instead of the estimated 175,000, Canada's labour market lost a whopping 207,000 jobs last month. According to Doug Porter, Chief Economist at **BMO** Capital Markets, there was a considerable decline in full-time jobs, particularly in private sector employment.

The imposition of fresh restrictions by provinces resulted in shuttering or limiting of non-essential businesses and school closures. Economists expect further job losses in May.

3. Inflation scare

Inflation usually dictates the path or direction of the stock market. High inflation eats into the value of future returns. As prices perk up, the number of casualties will also rise. Hence, only companies with price flexibility can overcome inflationary pressures.

4. Overvalued stock market

Stocks appear expensive, if not overvalued. According to Andrew Slimmon of Morgan Stanley Investment Management, valuations are not extreme. Instead, investors are hopeful the pandemic might soon be over after the distribution of more vaccines. He warns that the stock market needs to take a breather; he predicts a good year but expects significantly more volatility along the way.

Hedge against inflation

Based on a study by Ned Davis Research, energy stocks have been persistent winners during times of high inflation. Since 1972, and in seven of nine cases of high inflation, the energy sector outperformed the **S&P 500 Composite Index** by a median of 14%.

If inflation spooks you, my top pick is **Imperial Oil** (TSX:IMO). The energy stock is on fire with its 58.91% year-to-date gain. The current share price is $31.36, while the dividend yield is a decent 2.36%. In the quarter ended March 31, 2021, Imperial Oil delivered its highest quarterly earnings since Q3 2019 and the highest first quarter since 2018.

While the product demand was lower than normal at the start of 2021, commodity prices and product margins were strengthening. Imperial Oil's net income was $392 million versus the $188 million net loss in Q1 2020. The $23 billion company is a subsidiary of **Exxon Mobil Corporation**, so it should be an excellent hedge against inflation.

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