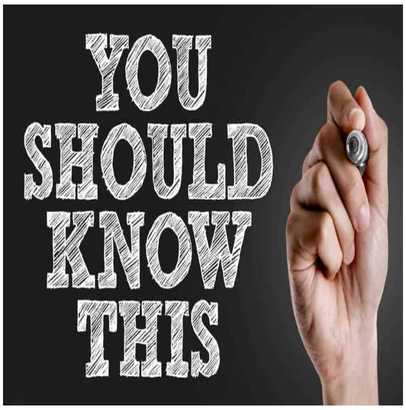

Evergrande: 3 Ways it Impacts TSX Stocks

Description

China's **Evergrande** is sending shockwaves across the global economy. This week, the mega giant property developer is expected to miss interest payments on several bonds. That puts it into a technical default.

Experts now believe the collapse of Evergrande is unlikely to cause a global financial contagion. In other words, very few non-Chinese banks have given Evergrande money, so they won't suffer losses. However, that doesn't mean the global economy and capital markets are completely protected.

Here's how the Evergrande issue could impact TSX stocks in the near-future.

China-exposed stocks

It's important to note that real estate is one of the key engines of the Chinese economy. Some estimates suggest that roughly 20-28% of gross domestic product (GDP) is derived from real estate-related activities. Evergrande's collapse could drag this down, pushing China into a recession, which could impact TSX stocks with local exposure.

Canada Goose (TSX:GOOS)(NYSE:GOOS) is an excellent example. The company was relying on China for expansion and growth this year. The nation accounts for 33% of global luxury retail demand. However, if real estate declines and people lose wealth or down payments, they could have less money to spend on Canada Goose's iconic jackets.

GOOS stock is already down 20% from March this year.

Less commodity demand

Over the past 10 years, China has been on a building boom. Infrastructure megaprojects and residential apartment blocks have been rapidly assembled. That created immense demand for raw materials like cement, iron ore, and steel. If we face a real estate bust, these commodities could decline. Unfortunately, Canada exports some of them.

Teck Resources (TSX:TECK.B)(NYSE:TECK) stock is the one to watch here. The company supplies coal for the steelmaking industry, copper, zinc, and energy. The stock is down 5.4% this week, but losses could accelerate if Evergrande's problems infect China's whole real estate market.

Less risk appetite

Unsurprisingly, investors hate uncertainty. For now, we don't know if Evergrande will default, whether the government will bail it out, or what the bail out could look like. The threat of a recession in the world's second-largest economy is concerning. That means some investors might lower their risk appetite.

In other words, if this crisis drags on, unprofitable growth stocks with stretched valuations could be at risk. Meanwhile, robust stocks with reliable dividends and little exposure to the economic cycle could be favoured.

Bottom line

The stock market is far more volatile this week. That's because dark clouds are looming over the world's second-largest economy. China's Evergrande issue may not cause a financial crisis, but it could certainly cause an economic crisis. What that means is a slowdown in real estate, luxury retail, and commodity markets.

Investors may want to watch these sectors closely. They may also want to consider shifting their portfolio to safer assets. The most undervalued, profitable, and insulated TSX stocks are, as always, the best ones to pick.

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