How Omicron Could Affect TSX Stocks

Description

Stocks fell by 2% last week to 21,126 as the **TSX Composite Index** continued to decline for the second consecutive week. Fears about the recently emerged Omicron coronavirus variant took a big toll on stock investors' sentiments across the globe. In addition, falling commodity prices pressurized energy and mining stocks. Let's explore how Omicron could affect stocks in the near term and what investors can do now to protect their invested money in the market.

Canadian stocks and concerns about Omicron

It has been slightly less than two years since the pandemic-related shutdowns and restrictions started affecting businesses worldwide. Hospitality, transportation, energy, and automobile were some of the worst affected sectors by these restrictions. In a relief for investors, businesses across sectors reported improving demand earlier this year as restrictions started easing with rising vaccination rates. This is one of the main factors that led to a big recovery in stocks — driving the **TSX** to new heights.

However, some media reports last week suggested that a newly identified coronavirus variant, Omicron, could be more contagious than the other variants. These reports prompted several nations to take immediate steps, like extending existing restrictions on international travel. These factors reignited fears among investors about the negative impact of the Omicron variant on business operations — driving a big market selloff as the main Canadian market benchmark fell by 2.3% Friday.

Could Omicron lead to a big crash?

It's too soon to comment about the Omicron variant at the moment. While several studies are still underway to learn more about it, "It is not clear whether it is more transmissible compared to other variants," according to experts at the World Health Organization (WHO). If the ongoing studies find Omicron to be more contagious and harmful than other variants, it could force authorities to impose stricter restrictions and lead to a tougher business environment.

However, the Omicron variant is not the only reason why stock investors should start preparing for a market correction. Several other worrisome factors, including high inflation, continued supply chain disruptions, and labour shortages, could also keep weighing on stocks in the near term.

What investors should do now

In times of uncertainty, investors tend to shift their attention toward safe-haven assets like gold. An increase in the demand for yellow metal gives a boost to its prices and gold miners' profitability. That's one of the reasons why I find some cheap Canadian gold mining stocks like **New Gold** (TSX:NGD)(NYSE:NGD) attractive buys right now. By buying such stocks, investors could minimize downside risks to their overall stock portfolio.

In the September quarter, New Gold's adjusted earnings per share rose by 50% year over year — beating consensus estimates by nearly 60%. Street analysts expect its earnings growth trend to improve further in the near term with the help of an expected rise in its production.

Its improving financial growth trends have fuelled a rally in its stocks this quarter. After losing more than 50% of its value in the first three quarters of 2021, NGD stock has already staged a 37% recovery in the fourth quarter so far.

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