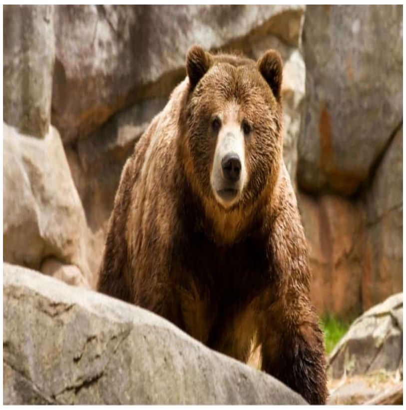

Bear Market Alert! 2 Sectors to Keep an Eye On

Description

The **S&P/TSX Composite Index** has been sliding down for a few days now, but the fall is not yet big enough or "spread out" enough to qualify as a crash. And while the correction is quite visible, it hasn't yet made many of the more expensive **TSX** stocks attractively valued enough for investors to pounce on them, stabilizing the market as a result.

The TSX will have to dip more than 3.8% to become the worst "correction" in the last 12 months, and the chances are decently high, especially for certain sectors. That's because the new virus variant, which has the potential to trigger another catastrophic pandemic wave, might become an external catalyst to augment the internal factors ready to push down two sectors: energy and finance, from their recently acquired heights.

The energy sector

The energy sector, if its index is any indication, has outperformed most others in the last 12 months. That's a drastic change from the mighty slump the sector experienced in the early days of the pandemic due to low demand.

That's part of the reason why the energy sector is top of the list of sectors that are about to enter the bear market phase. The sector rose quite high, despite its weight and the fact that just over a year ago, energy companies (oil companies, to be exact) were trying to get rid of the supply glut they created during the pandemic.

Also, if another wave materializes, energy might be the first sector to suffer. While bad from a capital appreciation perspective, the bear run can be amazing for dividend investors. A company like **Keyera** (TSX:KEY) which is already offering a mouthwatering 6.6% yield, might enter the 7% territory after a sizeable slump.

The company is also relatively expensive right now, so a bear market phase might also make it more attractively valued. It's important to note that Keyera is already on its way down from its 2021 peak (early June), and it might not crash as hard as many other energy companies, but appreciate any fall the stock experiences since it will allow you to bag this 10-year-old Dividend Aristocrat at the right time and lock in a powerful yield.

The finance sector

The finance sector has simply been enjoying the bull run tugged upward by the optimism in the market, and it might enter the bear phase rather organically, alongside the broader market. The heavyweights of the sector, that is, the Big Six banks, are already experiencing stagnation or drop, which might trickle down to smaller players like **IA Financial Group** (TSX:IAG).

The company has already fallen 7% from its recent peak, and the downward motion might soon culminate into a double-digit discount. The valuation is quite attractive as well (with price-to-earnings at 9.5), so a major slump might make the stock aggressively undervalued and push the 3.5% yield up to more attractive levels.

Foolish takeaway

A sector-wide bear market might put a decent discount tag on *most* of the securities in the sector, but buying everything that's cheap might not be a viable investment strategy. You might end up buying too much of the energy sector (disturbing the ESG profile of your portfolio) or too many finance stocks, disturbing portfolio diversification.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:IAG (iA Financial Corporation Inc.)
2. TSX:KEY (Keyera Corp.)

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