The TSX Is Less Than 6% Away From a Bear Market

Description

The stock market enters bear market territory when it falls by 20% or more from its peak. In Canada, the **TSX** registered an all-time high of 22,087.20 on March 29, 2022. However, it gave up 1,344.30 points (-6.63%) last week to close at 18,930.50. If it slides by another 5.7% this week, we are officially in a bear market.

While eight of the 11 primary sectors advanced on June 16, 2022, the top performer year-to-date posted the most significant percentage decline. Energy stocks went down 5.72% to lead decliners. The utilities and materials sectors lost by less than 1%.

Sea of red

A sea of red has engulfed the energy sector, which has attracted investors since the return of energy demand in 2021. In 2022, the ever-rising crude prices propelled oil stocks. Unfortunately, fears of a recession due to runaway inflation have heightened market volatility.

Despite their pullbacks in the last five days, oil majors like **Enbridge** (+10.04%), **Canadian Natural Resources** (+30.44%), and **Suncor Energy** (+44.12%) are still up year to date. Overall, the energy sector outperforms the TSX year to date at +41.92% versus -10.80%. Instead of staying away, investors can take a more defensive position.

Consumer staples stocks like **Empire Company** (TSX:EMP.A) and **Rogers Sugar** (TSX:RSI) have held steady amid the massive headwinds. Apart from being excellent backups to volatile energy stocks, their dividend payouts should be rock steady.

Food retailing and residential real estate

Empire is the parent company of Sobeys that provides the food shopping needs of Canadians. Apart from this food retailing segment, the $10.60 billion owns 41.5% of **Crombie**, a real estate investment trust (REIT) in the residential sub-sector. At $40.39 per share (+5.56% year to date), the dividend yield is 1.48%.

Management will report its Q4 and full-year fiscal 2022 results this week. In Q3 fiscal 2022 (quarter ended January 29, 2022), earnings growth, and free cash flow (FCF) were strong. Net earnings increased 15.4% to $203.4 million versus Q3 fiscal 2021, while FCF grew 75% year over year to $551 million.

Empire expects cost inflationary pressures to linger, but it is committed to focusing on supplier relationships and negotiations to ensure competitive pricing for consumers.

Strong sugar demand

Rogers Sugar seldom experiences wild price swings, and the share price usually ranges between $5.75 and $6.50. If you invest today, the share price is $6.02 per share, while the dividend yield is a hefty 5.94%. Also, the consumer staple stock outperforms the broader market (+2.64% year to date).

In the first half of 2022, revenue and net earnings increased 10.08% and 5.07% versus the same period in 2021. Mike Walton, president and CEO of Rogers and Lantic, said, “The demand for refined sugar was very strong in the second quarter of 2022, following the volatility and unforeseen events that negatively impacted our first-quarter sales volume.”

Walton expects the increase in volumes and margin improvements in sugar to compensate for the inflationary cost pressures on the maple segment.

Need for diversification

The decline of the stock market’s last stronghold reinforces the need for diversification. Energy is doing good thus far this year, but spreading the risks and mitigating them makes perfect sense. The consumer staples sector generally performs better during high inflation.

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