Should You Buy Stocks Now or Wait for a Bigger Drop?

Description

This week is crucial for the **TSX**, as the Bank of Canada prepares to announce its rate decision mid-week. Many economists and bankers expect the fourth installment in the central bank's rate-hike campaign to be the most aggressive thus far in 2022. The increase in the key lending rate could be 75 basis points.

On June 16, 2022, the TSX recorded its worst loss in more than two years. The index fell 607.5 points (3.1%) to close at 19,004.10. As of July 8, 2022, the gain from 22 days ago is only 18.8% points. But in one month, the TSX shaved off 8.51% to raise its year-to-date loss to 10.37%.

No one can tell which way the market will go once a supersized rate hike takes effect. However, the rate increase isn't the only source of vulnerability. Besides the stubborn inflation, declining oil prices and labour constraints could unsettle the market. The question of many investors is whether to buy stocks now or wait for a bigger drop?

A short-lived recession

Royal Bank of Canada (TSX:RY)(NYSE:RY) expects the country to be in recession in 2023. Canada's largest bank predicts back-to-back annualized contractions of 0.5% in the middle quarters of next year, then return to a 0.2% growth in the fourth quarter. However, Canada will likely endure a moderate and short-lived recession in 2023.

Nathan Janzen and Claire Fan, the bank's economists, said, "This recession will be moderate and short-lived by historical standards—and can be reversed once inflation settles enough for central banks to lower rates." They added that while multiple rate hikes will push Canada toward a contraction, the Feds must act aggressively to combat inflation.

Impact of damaging rate hikes

Janzen and Fan believe the only way to re-anchor prices is to implement much larger and more damaging interest rate hikes. For Q1 2023, RBC expects the consumer price index (CPI) to rise to 5%, at least. It should slide eventually to the Bank of Canada's target range in Q3 2023 but not achieving the 2% goal.

RBC economists see the unemployment rate rising modestly compared to previous downturns because businesses are already struggling in the wake of a historic labour squeeze. The 5.1% unemployment rate in May 2022 was a record low, although RBC estimates it to climb to 6.6% in 2023 when the economic downturn is underway.

Buy or wait?

A significant drop in stock prices is possible after July 13, 2022. For example, the usually stable financial sector is down 11.59% year to date. Big bank stocks like RBC are reliable investments but they aren't immune from a market selloff. According to Gabriel Dechaine, an analyst at **National Bank of Canada** Financial Markets, bank stocks will be under pressure in the second half of 2022.

Nonetheless, if you're holding RBC shares, don't sell. Even if the price sinks (not bottom out), it will quickly rebound, like in the past. At $127.56 per share, the bank stock is down by only 3%. The $178.85 billion bank will not default on its dividend payments (4.01% yield) or be in danger during a recession. You can also accumulate more shares on the dip to boost your passive income.

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