Canada Housing Correction: Should You Buy the Dip in These Stocks?

Description

The beginning of the COVID-19 pandemic inspired some Canadians to call for a steep drop in the Canada housing market. Instead, demand for Canadian real estate erupted, and sales and prices posted massive upticks. The jubilant mood in real estate has ground to a halt, as soaring inflation has forced the hand of the Bank of Canada (BoC). It has pursued aggressive rate tightening in the spring and summer of 2022. This, in turn, has sharply driven down home sales and prices across the country.

Today, I want to discuss whether investors should look to buy the dip in housing-linked stocks in this environment.

Is there any hope for Canada housing to stop the bleeding in 2022 and 2023?

Many experts and analysts have projected a worsening bloodbath for the Canada housing market in the last months of 2022 and in 2023. Robert Hogue, the assistant chief economist at **Royal Bank**, recently stated that housing's "bottom is still a ways away." Ontario and British Columbia are set to post the largest price declines.

The chances for a reversal seem remote at the time of this writing. Canadian inflation fell to 7.6% in the month of July. However, this is still far away from the BoC's 2% inflation target. That said, a severe economic downturn could inspire a policy reversal from central banks, especially if they have neared their inflation target. Should investors look to buy the dip in some of the top housing stocks on the TSX?

Here are two alternative lending stocks to consider in this Canada housing correction

Home Capital Group (TSX:HCG) and **EQB** (TSX:EQB) are two of the largest alternative lenders in Canada. They are most linked to the performance of the domestic real estate market. Shares of Home Capital have dropped 20% in 2022 as of close on August 18. Meanwhile, EQB stock is also down 20%

at the time of this writing.

In the second quarter (Q2) 2022, Home Capital saw net income fall 4.9% year over year to $41.3 million, or $0.97 diluted earnings per share. Meanwhile, mortgage originations remained strong at $3.04 billion posted in the second quarter. EQB posted its Q2 2022 earnings on August 9. Adjusted earnings declined 13% year over year to $61.5 million. Moreover, single-family alternative loans posted 35% growth to $16.3 billion.

Shares of Home Capital and EQB possess very favourable price-to-earnings (P/E) ratios of 7.6 and 6.7 , respectively. That said, I'm not ready to snatch up these stocks just yet in this turbulent real estate space.

This housing stock offers a mouth-watering dividend

Atrium Mortgage (TSX:AI) is a Toronto-based non-bank lender that provides financing solutions to real estate communities in Ontario, British Columbia, and Alberta. Its shares have dropped 10% in the year-to-date period. The stock is down 12% compared to the same time in 2021.

The company unveiled its Q2 2022 earnings on August 10. Its mortgage portfolio posted 6.5% growth to a record $817 million. This Canada housing stock possesses an attractive P/E ratio of 12. It currently offers a monthly distribution of $0.075 per share. That represents a monster 7.1% yield.

CATEGORY

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3. TSX:HCG (Home Capital Group)

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