Canada Housing in a Bear Market: Should You Buy the Dip in These TSX Stocks?

Description

Yesterday, **Bank of Montreal** chief economist Douglas Porter declared that the Canada housing market was "entering bear territory." Today, I want to explore how and why the previously red-hot Canada housing market has slipped into disfavour. Moreover, I'll look at three TSX stocks in the housing space that may be worth buying on the dip. Let's dive in.

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Why Canada housing has entered a bear market in the late summer of 2022

"The inventory of unsold homes has risen to 3.4 months from an incredibly skinny 1.7 at the start of the year," Porter continued in his recent analysis. That indicates that the broader housing market is now in much more balanced territory. Porter also pointed to the more troubling indicator of sales to new listings. The ratio in Ontario has dropped to just a above the 40 mark — a level not seen since the 2008/2009 downturn. Porter warned that this ratio also suggests that more trouble is on the horizon.

The Bank of Canada (BoC) elected to move forward with an aggressive rate-tightening path earlier this year. This was in response to inflation levels not seen in decades. Canada housing feasted on historically low interest rates and easy credit over the past decade. A sudden return to tighter conditions has had a predictable result.

Two alternative lending TSX stocks to snatch up on the dip

Home Capital Group (TSX:HCG) and **Equitable Group** (TSX:EQB) are two top alternative lenders that have gorged on positive Canada housing conditions over the past decade.

Shares of Home Capital have plunged 26% in 2022 as of late-morning trading on August 26. That has pushed the TSX stock into negative territory in the year-over-year period. In the second quarter (Q2) of 2022, the company reported mortgage originations of $3.04 billion — up from $2.76 billion in the prior year. Looking ahead, management remained confident that the company could weather the storm ahead.

EQB stock has also dropped 23% in the year-to-date period. That has pushed the TSX stock down 28% compared to the same time in 2021. The company unveiled its Q2 fiscal 2022 earnings on August 9. Adjusted earnings came in at $61.5 million, or $1.75 per share — down 17% from the previous year. However, single-family alternative loans were still up 35% from the previous year to $16.3 billion.

Both TSX stocks are trading in favourable value territory after sharp corrections so far in 2022. The bear market in Canada housing will likely lead to more pain for these stocks in the near term.

Here's another TSX stock that has struggled as Canada housing has dipped

Atrium Mortgage (TSX:AI) is a Toronto-based company that provides financing solutions to the real estate communities in Ontario, Alberta, and British Columbia. This TSX stock has dropped 14% in the year-to-date period. Its shares are down 17% year over year.

In Q2 2022, Atrium reported that 99.1% of its portfolio is less than 75% loan to value. That means that Atrium's mortgage portfolio is strong and should continue to deliver solid net income in the quarters to come. This TSX stock currently possesses an attractive price-to-earnings ratio of 12. It offers a monthly dividend of $0.075 per share, which represents a monster 7.5% yield. I'm still looking to hold onto this dividend stock as the Canada housing market struggles.

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2. TSX:EQB (EQB)
3. TSX:HCG (Home Capital Group)

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