Worried About the Recession? Get Defensive With These 3 Stocks

Description

The big story yesterday was how Canada's GDP slipped 0.5% in the second quarter, officially putting us in a recession. The market reacted as well as you'd expect. The TSX Composite headed sharply lower, falling as much as 3% before closing the day slightly higher. It wasn't a great day for Canada's benchmark stock index, ending the session down 2.7%.

Many pundits and market observers are saying this could be a prolonged recession, too. China's economy doesn't look great, and it's been the big consumer of Canada's exported commodities. Combine that with the prices of most commodities being weak, and it's easy to envision a scenario where Canada muddles along for a little while with negative or flat economic growth.

In that situation, sectors like technology and commodities aren't going to be the place to invest. They'll perform worse than the underlying market, albeit with greater potential upside once things recover. Instead, investors should get defensive and invest in sectors like consumer staples, telecoms, and quick-service restaurants. Here are three specific stocks investors should be studying closely.

Loblaw

Everybody needs to eat. And in Canada, more people get their groceries at **Loblaw Companies Limited** (TSX:L) than any other chain.

It isn't just groceries that Loblaw dominates. In 2014 the company finalized its acquisition of Shoppers Drug Mart, Canada's largest stand-alone pharmacy chain. In total, Loblaw has more than 2,100 pharmacies under its umbrella, which is going to look very attractive once Canada's 9.3 million baby boomers are popping pills on a daily basis.

Plus, Loblaw has history outperforming when the market tanks. In 2008 while the rest of the market was imploding, Loblaw shares actually went up. Sure, they didn't go up much, but that's still a massive outperformance compared to nearly everything else out there.

And most importantly, Loblaw pays investors a dividend to wait. It's only a 1.5% yield, but that's right in line with what other grocers pay.

Pizza Pizza

Although people do tend to go out for dinner less during recessions, the worst-hit restaurants are the nicer ones. Restaurants that offer a value experience still tend to perform relatively well.

One restaurant that's continuing to perform is Canada's largest pizza chain, **Pizza Pizza Royalty Corp.** (TSX:PZA). It recently reported second-quarter earnings that surpassed expectations, with total sales increasing 7.3%, same-store sales surging 6%, and adjusted earnings per share up nearly 9%. When you compare those numbers to competitors—specifically **Boston Pizza**—the comparison isn't even close. Boston Pizza's same-store sales were flat during the same period.

The thing I really like about Pizza Pizza is its ability to put stores in non-traditional locations. The company's pizza is available at places like sporting events, movie theatres, and museums. There's no other fast food chain in Canada that's as consistent in using non-traditional locations to its advantage.

Plus, Pizza Pizza pays a generous dividend yielding 6%. Even if shares are weak during this economic turmoil, investors can still take comfort in collecting that tasty dividend.

Rogers Communications

Even if the economy gets really rough, people are still going to pay their cell phone bills. You can't go without a cell phone these days, especially if you're like many millennials who have dropped their home phones. That's good news for **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), Canada's largest wireless provider.

The company is also a big player in the cable, Internet, and Canadian media landscapes, and it owns the Toronto Blue Jays, an investment that's looking particularly attractive right now. Analysts predict the company will earn $2.87 in 2015 and increase that slightly to $3.07 next year, putting shares at approximately 15 times forward earnings. Those are sticky earnings too, because of the predictability of the company's cash flow.

During tough times, companies like Rogers are what investors really value. And like with Pizza Pizza, investors are paid a generous yield to wait. Rogers currently sports a 4.4% dividend, which easily trumps the yield from most fixed income sources.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:L (Loblaw Companies Limited)
3. TSX:PZA (Pizza Pizza Royalty Corp.)
4. TSX:RCI.B (Rogers Communications Inc.)

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