

# Why 'Sin Stocks' Could Be The Next Big Thing

## Description

Stock markets across the world are currently in the midst of a Bull Run. This is unsurprising, since monetary policy has been exceptionally loose for a number of years. Low interest rates and quantitative easing have combined to deliver asset price growth. Similarly, budget deficits have been high and have helped to increase GDP growth across a number of economies.

Now, though, a period of monetary policy tightening is set to occur over the coming years as higher inflation seems likely. Against this backdrop, GDP growth and the economic outlook for the global economy may come under a degree of pressure. This could cause a number of stocks to report disappointing earnings growth, which is a key reason why 'sin stocks' could be the next big thing for investors.

## Defensive qualities

'Sin stocks' are essentially companies operating in sectors such as alcohol, tobacco, fast food and gaming. They have historically performed well versus the wider index, and this could be set to continue. The main reason for this is their defensive characteristics. For many consumers of 'sin products', they are a staple rather than a discretionary item. This means that even if there is an economic downturn, demand for 'sin products' is likely to remain high. In fact, in the case of tobacco, for example, demand may not change in a recession versus a period of economic growth.

This defensive quality could appeal to investors in future years, since demand for a range of products and services outside of the 'sin stock' space may come under pressure. As mentioned, the free-spending decade since the financial crisis may be coming to an end, as central banks look to counter the threat of higher inflation. Investing in 'sin stocks' could therefore offer a low-risk opportunity for investors concerned about the prospects for the global economy.

## Growth potential

As well as their defensive qualities, 'sin stocks' also offer scope for share price growth. Due to the high demand for their products and/or services, companies operating within 'sin sectors' generally have a high degree of pricing power. They may be better able to increase sales, margins and profitability than most companies during both boom and bust scenarios for the wider economy.

Furthermore, high barriers to entry and strict regulations generally mean the threat from new entrants to the industry is kept to a minimum. This equates to fewer major players within the sector, which provides even more dominance and pricing power. And, since they offer strong defensive growth qualities, high valuations could be justified even during a bear market.

## Takeaway

While 'sin stocks' may be unethical in many cases, they have historically offered a perfect mix of

defensive and growth attributes. Given the uncertainty facing the global economy and the prospect of tighter monetary policy, they could offer relatively impressive outlooks for long-term investors.

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