Why the Next Recession Could Be a Gift to Canadian Investors

Description

Among investors, the word *recession* is a dirty word. In addition to the usual job losses and profit declines that come during a downturn, there's also the problem of stock prices falling as corporate earnings nosedive.

As you may be aware, a number of economists, including Nouriel Roubini and Paul Krugman, have been calling for a recession no later than 2020. By the numbers, half of economists polled believe they'll be a recession by 2020, while two-thirds think we'll be in one by 2021. There's a lot of intellectual firepower behind these predictions, so it wouldn't be wise to discount them.

If you're a short-term trader who's not quite comfortable with shorting, then recessions are indeed bad news. If you take a longer-term perspective, however, recessions can bring a number of benefits.

First, falling stock prices provide the opportunity to buy low. Second, if you buy dividend stocks in sectors that aren't hit by recessions (e.g., utilities), lower prices can bring higher dividend yields.

A possible third benefit is the fact that Canadian stocks are uniquely positioned to survive a North American downturn. Canadian financials notably made it through the Great Recession better than U.S. financials did, while the **S&P/TSX Composite Index** didn't fall as far as the **S&P 500** in 2009. It's actually possible that a recession could be a gift to Canadian investors. In addition to the foregoing, the following three reasons can help explain why.

Many TSX stocks are resistant to economic downturns

The TSX is not the world's "sexiest" stock exchange. While the U.S. markets abound with high flying tech stocks and premium consumer brands, the TSX is heavily weighted in more traditional industries.

Why is that good news? Quite simply, it means that Canadian stocks are less exposed to fickle consumer spending patterns than American stocks are. While utility stocks like **Fortis Inc** (TSX:FTS)(NYSE:FTS) won't be getting pumped anytime soon, they have the benefit of high dividends andincome streams that are relatively untouched by economic downturns.

Assets are already cheap

Many Canadian assets are already cheap. Real estate would be the prime example here, with the CREA saying that we're headed for the weakest housing market in almost a decade. I'd argue that stocks are another example–and yes, I'm aware that they have gotten off to a great start in 2019. However, the TSX is still off its 12 month highs, and barely up over five years.

It's almost like Canadian equities are "anticipating" a coming recession. If that turns out to be the case, then the actual fall won't be too steep when a future economic contraction starts.

Buying opportunities galore

A final point worth mentioning is that there are still tons of great buying opportunities available for investors–both in Canada and South of the Border. **Lululemon Athletica** (NASDAQ:LULU) is a Canadian clothing company that just recently posted a huge earnings beat and then proceeded to go flying in the markets.

LULU is technically a U.S. play because it recently stopped listing on the TSX, but its peer **Canada Goose** could be an excellent substitute if you don't like currency conversion. And don't forget those boring but recession-resistant traditional industries mentioned earlier. In times of economic contraction, they can be your best friends.

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2. NYSE:FTS (Fortis Inc.)
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