2 Stocks to Buy to Prepare for a Recession

Description

Last week's inverted yield curve scare is still fresh in the minds of investors and analysts alike. The famous (or perhaps infamous) sign of a coming recession had Wall Street buzzing, and many decided to take measures accordingly.

While the incident may have been a bit exaggerated, it is never a bad time to prepare for an economic downturn. Let's look at two companies that could be excellent choices if the economy tanks and equity markets plunge.

Betting on the aerospace industry

The past few months haven't been great for the image of the aerospace industry. The **Boeing** 737 Max jet crash that killed all 157 people on board — just months after another crash with the same model killed 189 — is bringing a renewed interest in air travel safety. However, given the importance of air travel for public and private consumers, the industry is likely to keep generating billions in earnings for years.

Diversified supplier of aerospace components **Magellan Aerospace** (TSX:MAL) is an intriguing option to consider. The Ontario-based firm has provided good returns recently, growing its share price by roughly 120% in the past five years.

This growth was spurred in part from predictable and growing revenues and earnings. Magellan often enters contracts — sometimes with well-known leaders within the aerospace industry — to engineer and manufacture aerospace components. Predictability breeds stability; stability breeds low volatility.

Over the last half-decade, Magellan's revenues have grown by 5.15%, while operating profits and net income have increased by 9.65% and 14.40%, respectively. Though the company showed a decline in revenues and profits last year, it is currently undergoing cost-cutting efforts to improve margins. Magellan is on the verge of implementing a new ERP system, which should boost productivity and efficiency.

What's more, Magellan is pretty cheap, both on a nominal and relative basis. Priced at just under $18 per share at the time of writing, the company's shares are trading at 11.57 times forward earnings.

A renewable energy leader

Public awareness about the importance of renewable sources of energy has never been higher. As the potential catastrophic effects of global warming become clearer, calls for the energy industry to go green keep getting louder — and more frequent — giving birth to an increasingly attractive sector for energy companies to dip their toes into. One company that has managed to do so brilliantly is **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP).

The energy firm buys, owns, builds, and operates renewable energy assets, including hydro, wind, and solar facilities. Brookfield is one of the leaders in its class, with 18,000 megawatts (MW) of generating capacity (more than two-thirds of which stem from its hydro sector).

Production capacity has increased in recent years for Brookfield, and so have revenues. The Bermuda-based firm's cash flows are set to increase continuously through the acquisition of new contracts and upward price adjustments in existing contracts. The vast majority of the firm's cash flows are contracted.

Brookfield has acquired over 870 new assets of various kinds since 2013, totaling in excess of 10,000 MW production capacity. As the industry continues its upward trajectory, Brookfield is well positioned to keep reaping the benefits, which is good news for investors. Indeed, the company offers a fat dividend yield of 4.88% (at the time of writing).

Though Brookfield's shares were down by more than 20% for much of last year, the company has rebounded nicely and is up 17% since the beginning of the year, slightly outpacing the market.

Risk and reward

Although there are no risk-free assets, some are less likely to succumb in times of an economic turmoil. Magellan and Brookfield both have many of the qualities of low-volatility stocks. If you are worried a recession is coming, consider adding shares of either — or both — to your portfolio.

CATEGORY

1. Energy Stocks
2. Investing

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