Recession Investors: 2 Stocks to Buy and 2 to Drop

Description

The American yield curve inversion has spawned any number of think pieces calling for an incoming recession; with this in mind, pundits have begun questioning whether U.S. exposure may be a bad thing. Meanwhile, aerospace stocks are out of fashion, and may not have what it takes to outtride a widespread market downturn. With all that in mind, here are two stock to buy and two to drop.

Two stocks to cool off on…

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

United States of America Scotiabank is one of the foremost non-American banks that count big U.S. businesses as customers through a variety of products and services spanning global banking and markets, global transaction banking, and wealth management. While this has been seen as a boon – as well as a mark of geographical diversification – it has come to be something of a concern after the American yield curve inversion.

On the face of it, Scotiabank is a buy – it's only its exposure to the U.S. market that makes it one to scale back on. From decent market ratios (see a P/E of 10.6 times earnings and P/B of 1.4 times book) to a decent dividend yield of 4.88%, a data-focused trader would be none the wiser.

Magellan Aerospace (TSX:MAL)

While a P/E of 11.7 times earnings and P/B of 1.3 times book indicate below-market valuation, a PEG of 10.4 is too high for a strict value investor. While Magellan Aerospace's five-year total returns of 120.4% outperformed the TSX index, as well as the Canadian aerospace and defense industry, and the stock pays a dividend yield of 2.25%, investors bearish on aerospace may want to scale back.

And two stocks to buy…

Hudson's Bay (TSX:HBC)

Up 1.86% in the last five days, it seems investors are still bullish on affordable high street retail. Indeed, affordable luxuries are proven to withstand – and even thrive – in economies stricken with recession. Offering a hybrid click-and-collect system broadens the appeal of a department store, which traditionally would have relied on footfall alone to drive sales.

With beta of 0.65 relative to the Canadian multi-line retail industry, Hudson's Bay is a buy-and-forget stock that is likely to stand the test of time. At the moment it pays a dividend yield of just 0.65, though if bullishness increases on the back of a recession, this could end up changing for the better.

Loblaw Companies (TSX:L)

One of the premier retail stocks on the TSX index, Loblaw Companies is a progressive and innovative retailer, and one that should stand to do well should a recession darken Canadian skies. Its stock has been on the rise since the start of last November, and while its market ratios suggest that it's overvalued at the moment, it has a lot of other things going for it.

A solid track record is illustrated by a five-year average past earnings growth of 29.2%, while an adequate balance sheet is shown by a reduction in debt over the last five years, with said debt being adequately covered by Loblaw Companies' operating cash flow. A dividend yield of 1.77% is the main draw in this desirable consumer staples stock.

The bottom line

If value investors can look past Loblaw Companies' P/E of 35.4 times earnings and PEG of 13.6 times growth, this is a solid stock for recession investing. Canadians bearish on the U.S. economy may want to scale back their exposure to the Big Six, meanwhile, and swap out aerospace stocks in favour of down-to-earth consumer staples.

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