2 Resilient Stocks to Outperform Despite Slower Economy

Description

The economy has been rather sluggish lately. But despite the slowdown, we're miles away from a recession, and with many investors shedding their fear of an imminent recession, the dominant mentality in the market could be moving from "the fear of losing money" (FOLM) to "the fear of missing out" (FOMO) just like that.

Indeed, we've flip-flopped between overly bullish and panic many times over the past few years. From Trump bump to Trump slump, if you flinched at the big moves, you probably lost money while Fools took advantage of the opportunity by picking up shares on the dip despite the headlines noting that "dip-buying no longer works."

Now that we've come to terms with the slowdown, many investors have begun piling back into stocks, sending the markets back to all-time highs. While the economic slowdown will undoubtedly affect the most cyclical names most, two economically-sensitive stocks have been faring well in spite of the downturn. Such outperformance in rough times is remarkable and is thanks mainly to the abilities of management.

Without further ado, let's have a look at the two resilient stocks that have continued to defy the odds thanks to exceptional stewards that are continuing to make big fundamental improvements at the company level.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

The rails are the heart of the economy. As North America's most efficient railway, you'd expect CN Rail stock to pullback considerably on the late-2018 slowdown. That didn't happen because the railroad under rookie CEO J.J. Ruest has been improving upon itself during the times of economic hardship, so much so that the company-specific improvements were able to offset a big chunk of the industry-wide headwinds.

Despite the slowing economy, freight volumes were still booming, and CN Rail took full advantage of the situation by prepping itself with big infrastructure investments (140 miles of double track and 140 new locomotives) in order to bolster its capacity. Despite the upped expenses, the operating ratio hasn't been damaged significantly. In fact, the operating ratio improved 80 basis points as of the fourth quarter.

CN Rail is a very efficient operator, and its moat keeps getting larger. With double-digit percentage dividend hikes on the horizon, I wouldn't hesitate to recommend the stock, even if the odds of a recession were high.

TFI International (TSX:TFII)

In a prior piece, I stated that if the rails were the heart of the economy, then the truckers were the blood vessels. The truckers cater to remote areas that the railroads can't reach, so rather than thinking of the rails and truckers as competitors, they should be thought of as complementary (that's a huge reason why CN Rail bought trucking firm TransX).

Like CN Rail, TFI has been firing on all cylinders at the company level which has allowed the company to outperform in spite of the economic headwinds. For Q1 2019, the company knocked one out of the ballpark with its EPS of $0.74 ($0.77 adjusted EPS), which beat the Street consensus by nearly 12%.

TFI just keeps on truckin'. Operational improvements continue to propel the stock higher, and once the economy bounces back, I expect tremendous upside as the top-line swells alongside TFI's margins.

Hats off to management for the big beat.

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