Warning! 2 Defensive Stocks to Buy Before a Recession Hits

Description

The semi-annual meeting of the International Monetary Fund (IMF) began early this week in Washington and will conclude this weekend. Its World Economic Outlook (WEO) report included a downward revision on previous growth forecasts.

In a speech last week, incoming managing director Kristalina Georgieva pointed out that the world economy was in a synchronized global downswing, with lower growth projected in 90% of the world.

Canada is expected to exhibit economic growth, albeit at a reduced rate, in the early 2020s. Growth is not expected to rise above an annual rate of 2%. Top prognosticators are not forecasting a global recession, though trade tensions will continue to add a degree of unpredictability.

Investors should always be prepared for the worst. Today I want to look at two defensive stocks to cling to in the event of a domestic economic downturn. Defensive stocks are those that deal in staples, which is why these equities are reliable even in periods of economic flux.

Loblaw Companies

Loblaw Companies (TSX:L) is Canada's largest food retailer. Shares of Loblaws have climbed 20.3% in 2019 as of mid-afternoon trading on October 16. Competition in the grocery retailer space has intensified in the past few years, but steady food inflation and a good performance from its pharmacy division has kept Loblaws on a solid growth track.

The company is expected to release its third quarter 2019 results before markets open on November 13. In the second quarter Loblaws reported food retail same-store sales growth of 0.6% and drug retail same-store sales growth of 4%. In the year-to-date period adjusted EBITDA has climbed 40.8% from 2018 to $1.57 billion. Loblaws generated $333 million of free cash flow in Q2.

Shares of Loblaws have achieved average annual returns of 11% over the past 10 years. The stock also offers a quarterly dividend payout of $0.315 per share which represents a modest 1.7% yield.

Dollarama

Dollarama (TSX:DOL) is the largest dollar store retailer in Canada. Shares have increased 46% in 2019 so far. Last year I discussed why Dollarama and other dollar store retailers had thrived in the years following the 2007–08 financial crisis. In the past these retailers catered to a narrow customer base, but this has expanded over the past decade to include higher income shoppers.

In the second quarter of fiscal 2020, Dollarama reported a 9% increase in sales from the prior year. It closed a key acquisition for a 50.1% stake in Latin American value retailer Dollarcity, branching out the company's footprint beyond Canada. At quarter's end Dollarcity operated 192 stores across Latin America.

The stock also offers a modest quarterly dividend of $0.044 per share, representing a 0.3% yield. Recent history has shown that consumers turn more to dollar stores in periods of economic weakness.

Canada's growth rate is on the downswing and Canadian consumers are still squeezed with high levels of debt. Dollarama is a top defensive stock as we mull over these conditions.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:L (Loblaw Companies Limited)

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