



Hedge Against a Market Meltdown: My Top Defensive Stock for 2020

Description

Rising economic and geopolitical risks — including the coronavirus pandemic and heightened tensions in the Middle East — have financial markets on edge.

It has triggered a flight to safety among investors, making it responsible for gold's latest rally which sees the yellow metal trading at around US\$1,574 per ounce at writing.

While gold is a well-known safe haven and hedge against uncertainty, over the long term, it has failed to outperform defensive stocks. Utilities, which are classified as [defensive stocks](#), have outperformed gold over the last decade.

The largest utilities exchange-traded fund (ETF), the **Utilities Select Sector SPDR Fund** has gained around 138% over the last 10 years compared to gold's more modest 41% and the **S&P/TSX Composite Index's** 54%.

Another class of defensive stocks that also possess solid growth potential and pay a regular income are REITs because they invest in real estate, which is classified as a hard asset, rendering it resistant to economic downturns.

One of the [most attractive](#) REITs to buy is **Northwest Healthcare Properties REIT** ([TSX:NWH.UN](#)), which has risen by a notable 19% over the last year compared to the **S&P/TSX Composite**, which is up by 13%.

Promising outlook

There are clear indications that NorthWest Healthcare will deliver further value during 2020, making now the time to buy. After completing the needle-moving \$1.2 billion acquisition of 11 medical properties in Australia from Healthscope, NorthWest Healthcare announced the launch of a \$3 billion European joint venture to expand its presence in Germany and the Netherlands.

NorthWest Healthcare also recently completed the \$167 million acquisition of six private hospitals in

the United Kingdom, giving it a presence in one of Europe's largest healthcare markets, where private healthcare is estimated to be a market worth US\$14 billion by 2025.

Those deals will serve as powerful growth drivers for the company, giving earnings a solid boost.

The REIT is also in the process of structuring its Australian operations to optimize their performance, including the sale of non-core assets, which it expects will raise \$140 million that will be used to reduce debt.

Growing aging populations in NorthWest Healthcare's core Canadian, Australian and European markets will act as a powerful earnings tailwind, while lower debt and a focus on controlling costs will boost profitability.

There are also significant barriers to entry for the healthcare industry because of significant regulatory and capital requirements endowing the company with a wide economic moat that protects its earnings.

Apart from that wide economic moat, NorthWest also has some solid defensive characteristics, including the inelastic demand for healthcare, particularly medical treatment, thereby shielding its earnings from economic downturns.

For these reasons, NorthWest Healthcare possesses a rare mix of strong growth potential and sturdy defensive characteristics, making it the ideal stock to hold in the current environment that's driven by considerable economic and geopolitical uncertainty.

NorthWest Healthcare is very attractively valued, trading at a modest 7% premium to its normalized net asset value, indicating considerable upside ahead and further emphasizing that now is the time to buy. The REIT rewards unitholders with a sustainable and regular monthly distribution yielding a very juicy 6.3%.

Looking ahead

Rising economic and geopolitical risk magnified by the coronavirus pandemic in China and the potential fallout for the global economy means that defensive stocks will perform solidly during 2020.

NorthWest Healthcare because of its robust defensive characteristics and solid growth potential is the ideal stock to hold in such an environment. While investors wait for its market value to appreciate, they will be rewarded by its sustainable distribution and juicy yield.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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