Market Crash 2020: 3 Defensive Stocks to Buy

Description

The S&P/TSX Composite Index narrowly avoided a double-digit percentage decline on March 16. This sent Canadian stocks to the lowest point since 2016, exacerbating the worst market crash since the financial crisis. Central banks in the developed world are resorting to monetary easing to provide relief from the market crash.

The United States Federal Reserve has launched a fourth round of quantitative easing. The Bank of Canada has dropped its benchmark rate by 50 basis points, and further monetary action is expected to follow to provide relief in this bear market.

There is hope that the radical actions on the ground taken by Canada and its allies will stem the tide of the COVID-19 outbreak. China implemented lockdown measures in late January. On March 13, Huangshi and Qianjiang became the first cities in the Hubei province to remove strict travel restrictions. Wuhan remains under lockdown, and death rates are still high. China experienced a market crash in the thick of the outbreak, but it has shown signs of a return to normalcy in recent weeks.

The economic toll of this crisis is incalculable right now. Because of this, many investors may want to retreat to defensive stocks. These equities tend to be in the consumer sector.

Market crash has boosted grocery retailers

In recent weeks, Canadian and U.S. consumers have taken to panic buying. Shelves have been stripped of toilet paper, bottled water, non-perishables, and other items. Canadian officials have assured consumers that supply chains have not been disrupted, and grocers will continue to restock shelves. Online rumours of broad shutdowns have fueled this kind of behaviour.

Grocery retailers are a great defensive pick right now. Not only are shoppers clearing shelves in response to this crisis, but the closure of restaurants and bars will narrow options to grocers.

Loblaw is the largest food retailer in Canada. Its stock has dropped 8.7% month over month as of close on March 16. In this market, this is a good outcome. Many service industries will take massive hits due to nationwide shutdowns, but Loblaw and other grocers will keep their doors open.

Shares of Loblaw had a price-to-earnings (P/E) ratio of 22 as of close on March 16, putting it in favourable territory relative to industry peers. It last paid out a quarterly dividend of $0.315 per share, representing a modest 1.9% yield.

Metro is another top grocer to consider today. Its stock slipped into negative territory for 2020 after falling 4.17% on March 16. However, shares are still up 11% year over year. The stock had a P/E ratio of 20 and a price-to-book (P/B) value of 2.3 at the time of this writing. This makes Metro a solid value target. Metro last paid out a quarterly dividend of $0.225 per share, representing a 1.5% yield.

Dollar stores are still a good play

Dollarama (TSX:DOL) was my top stock pick for the month of March. Its stock has dropped 14% over the past month. However, compared to many of its peers on the TSX, this is still a solid outcome. Dollar stores proved to be very reliable after the 2007-2008 financial crisis, experiencing something of a renaissance in the years that followed.

I have discussed why Dollarama and other discount retailers could qualify as "recession-proof." Discount retailers have attracted a broader consumer base over the past decade. Many shoppers will be looking to cut costs in these uncertain times, and Dollarama is certain to keep its doors open.

Shares of Dollarama last had a P/E ratio of 21, putting it in favourable value territory. Dollarama had plans for aggressive expansion in 2020. It is carrying high debt levels right now, but its unique defensive position should allow it to move ahead with these ambitions. I like discount retailers in this environment.

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1. TSX:DOL (Dollarama Inc.)

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