Recession Alert: Is Loblaws a Buy Today?

Description

The market crash that we've witnessed this year has many investors betting we'll soon see our first recession in over a decade.

While COVID-19 has disrupted the global economy, it's not the only reason we may be headed for a recession. Valuations before the market crash were at an all-time high. A pullback in the market should be viewed as a healthy reality check.

Whether we're in the middle of a bull market or about to hit a recession, it doesn't mean we can put our investing on pause. With a recent pullback of more than 30% in the market, there are plenty of great companies trading at a discount today.

What investors do need to take into consideration before investing today is how a business will be impacted by a recession. Does the company sell an essential product or service that consumers will continue to use even with a downturn in the economy?

There were plenty of growth companies with debt-heavy balance sheets trading at extremely high valuations before the recent market crash. Rather than adding a high-risk company like that to your portfolio, look to add a stable defensive stock as we prepare for a likely recession.

With many non-essential stores across the country now closed indefinitely, grocery stores remain open. Canadian retailer **Loblaws** (TSX:L) is not only one of the largest grocery chains in the country, but it also owns and operates pharmacies.

Recession-proof

At a market cap of $25 billion, the company owns more than 2,000 stores across Canada. The company operates more than just Loblaws stores. Notable brands operated by Loblaws include NoFrills, Zehrs, and Shoppers Drug Mart.

What allows Loblaws to be in such a strong position even ahead of a recession is the products they offer. Customers will continue to purchase groceries and medication even during economic downturns.

CEO Galen Weston recently announced that Loblaws could be counted on even during a recession. As many consumers are panicking from all the fear surrounding COVID-19, Weston confirmed that prices would not be raised on any items.

The Canadian market witnessed a 35% drop in less than two months, fuelling much of the conversation for the next recession. Loblaws has held up much stronger than that during this downturn.

From February 15 to March 31, the **S&P/TSX Composite Index** had dropped 25%, versus an increase of 2% in Loblaw's stock price. Although it's been an extremely volatile month and a half for the grocery chain, the company has held up extremely well during the recent crash.

Dividend yield

While Loblaws may not yield the highest dividend on the **S&P/TSX 60**, the company does offer a modest and reliable yield. At today's stock price, the company pays a dividend of $1.26 per share, equal to a yield of 1.82%.

The Dividend Aristocrat bears less risk in cutting the dividend during a recession, as the company provides essential products to consumers. The company also boasts a dividend growth streak of eight years.

Foolish takeaway

Investors should keep in mind that regardless of the economic condition, investing in the stock market should not come to a halt. What you choose to invest in may differ knowing we're likely headed for a recession, but it doesn't mean that investors should shy away from the stock market altogether.

Grocery store giants like Loblaws can act as an excellent defensive stock to your portfolio, which would help balance out higher growth companies that will likely take a hit during a market downturn.

CATEGORY

1. Investing

POST TAG

1. market crash
2. recession

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. market crash
2. recession

Date
2025/08/23
Date Created
2020/04/02
Author
ndobroruka