Where to Invest $5,000 As Recession Looms

Description

Many investors have been buying Canadian heavyweights amid the recent market crash. Recession fears are increasing daily as lockdowns are having a huge negative impact on the global economy. It would therefore be prudent for investors to take shelter in high-quality, defensive **TSX** stocks.

Stocks with a low correlation with the broader markets and non-cyclical earnings will be apt in the current market scenario. Let's take a look at two such stocks.

Atco: A recession-proof top dividend stock

Atco (TSX:ACO.X) is a Canada-based diversified holding company that is engaged in energy infrastructure, utilities, and logistics. It holds an approximately 52% stake in **Canadian Utilities**, which facilitates its earnings stability and visibility.

Atco stock has bounced back more than 35% from its multi-year lows last month. However, the stock is still trading 40% below its 52-week high early this year, indicating room to grow.

Atco's dividend yield of 5% is higher than the broader markets. Its consecutive 27 years of payout increase underlines its dividend stability and reliability. If one invests $5,000 in Atco, he or she will generate $230 in dividends in 2020. Along with yields, stable dividend growth plays an important part in driving investors' returns over the long term.

The primary rationale behind covering Atco is because of its non-cyclical nature of business. Thus, even if a recession hits us in the future, Atco's earnings and dividends will likely remain stable.

Additionally, the virus epidemic will have a minimal impact on its bottom line. This certainty in earnings is what long-term investors should focus on.

Saputo: A market leader in the essentials space

Saputo (TSX:SAP) is a $14 billion dairy processor in Canada. It is one of the top 10 dairy processors in the world and is among the top three cheese producers in the United States.

The stock is up almost 20% amid the broad market rebound; however, it still seems to have steam left and indeed is trading 32% lower against its 52-week high of $46.4. However, despite being categorized as essentials, Saputo stock was weak along with broader markets in this epidemic-driven crash.

While the lockdowns could have a negative impact on its earnings for the next couple of quarters, Saputo's leadership position and scale could continue to support it in the long term.

In a recent update on the COVID-19 impact, Saputo management told that the company is well placed to traverse through these challenging times. The management said that it sees increased merger and acquisition opportunities once we are done with the pandemic.

Along with organic growth, Saputo aims to grow through acquisitions as well. Since 1997, the company has completed 37 acquisitions.

Saputo stock currently yields almost 2%, lower than the equities at large. It has increased dividends in the last 20 consecutive years. In the last five years, Saputo managed to raise dividends by 6% compounded annually, easily beating inflation.

These two not only offer stability and passive income, but also high growth potential. Investors who are concerned about a looming recession and are looking for defensive stocks can consider adding these two.

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