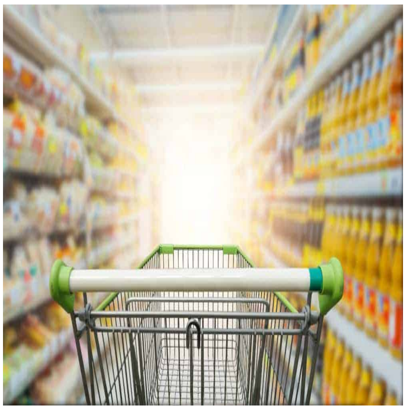

Why Consumer Staples Stocks Are a Must-Have During a Recession

Description

Consumer staples stocks are defensive stocks. Staples stocks are non-cyclical, which means that the movements of the economy have no impact on them. Companies in this sector generate regular sales regardless of the economic cycle.

On the other hand, market declines affect cyclical stocks, such as airlines, hotel chains, and companies selling luxury goods. These stocks tend to perform better during periods of expansion than during recessions.

When confidence in the economy is high, people tend to buy items considered less essential, such as cars and jewelry. But when consumer sentiment is low, people will spend more on essential items like personal hygiene products and food.

Due to their nature, consumer staples stocks tend to perform better than other stocks during economic downturns. Companies in these sectors sell essential products or services to people.

Metro is a great stock to own during market downturns

Grocers are benefiting from the pandemic as people go to grocery stores to stock up on food.

We don't know how long the coronavirus crisis will last. But people still need to eat, which is why grocers like **Metro** (TSX:MRU) are doing well. While the **TSX** has plunged 17% since the start of the year, Metro stock has soared about 10%.

Metro benefits from its well-known brands, its significant presence in Canada and its continuous investments. The grocer has expanded its presence in the pharmacy market after acquiring Jean Coutu.

The successful integration of Jean Coutu's activities, the improvement of customer shopping experience, and the growth of e-commerce will drive Metro's long-term growth.

Revenue is estimated to grow by 3.30% to about $17.3 billion in 2020, while EPS is expected to rise by 10.6% to $3.14.

Stable cash flow and continued investment should support the company's dividend growth in the future. The current dividend yield is 1.4%. Metro has been increasing its dividend for 24 years.

Staples stocks are less volatile than the market

Having a few consumer staples stocks can help protect your investment portfolio from shocks. These stocks are not the best performers in a bull market, but when the market goes down, they generally go up.

Staples stocks usually have a low beta or even a negative beta. Stocks with low betas are less volatile than the market, hence their price moves less than the market with less risk of losing money during market downturns. The lower the beta, the lower the risk.

Stocks with a negative beta even fare better during a downturn, as they move inversely to the market. If the market goes down, they go up. Because Metro has a beta of -0.10, its share price rises when the market plunges.

A portfolio containing staples stocks should have fewer losses than a portfolio invested solely in cyclical stocks. Defensive stocks offer protection in the event of a market downturn because they're much less sensitive to the variations of the economic cycle than cyclical stocks.

In addition, many staples stocks pay a dividend. Regular income is always nice to get, especially in difficult times. If your risk tolerance is low, you may prefer to buy more defensive stocks as they are less volatile than cyclical stocks.

However, by not holding cyclical stocks in a bull market, you can forgo great growth opportunities.

CATEGORY

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