



2 Consumer Stocks Short-Term Investors Are Better Off Buying

Description

Consumer stocks are in vogue, as investors rush to protect their portfolio amid large market swings. The defensive and stable business model backed by consistent demand for their products makes consumer companies an attractive investment option amid an uncertain economic environment.

However, there are some stocks in the consumer discretionary industry that short-term investors are better off buying owing to their exposure to consumers. I am talking about companies that are highly dependent on consumer discretionary spending.

Two such consumer stocks are **Gildan Activewear** ([TSX:GIL](#))([NYSE:GIL](#)) and **BRP** ([TSX:DOO](#))([NASDAQ:DOOO](#)). Shares of both these companies have taken a beating and are trading at multi-year lows. However, the decline in their stock prices shouldn't be seen as an opportunity to go long, especially if you're a short-term investor and expecting to gain from the recovery in prices.

The unprecedented demand destruction following the coronavirus outbreak is likely to act as a dampener. Further, the rising unemployment rate and the decline in consumer discretionary spending will delay the recovery in these stocks.

Gildan Activewear

Gildan Activewear stock has taken a significant hit in the recent past. The stock is down about 54% so far this year. Moreover, it has declined by 65% in one year. The significant downturn in demand is taking a toll on Gildan Activewear. The company's sales fell more than 26% in the [most recent quarter](#). Moreover, its adjusted EBITDA and adjusted net earnings fell by 40% and 66%, respectively.

The scenario remains grim in the coming quarters, which is likely to stall the recovery in its stock. Gildan Activewear's imprintables channel sales are driven by the products that are used for large-gathering and cultural events. However, with social-distancing measures and lack of demand, volumes have gone down and could continue to stay low in 2020. Moreover, lower consumer spending on non-essential items could further remain a drag. Gildan Activewear has also suspended its [quarterly dividends](#) and share-repurchase program.

I believe the pickup in demand for Gildan Activewear's products will be slow, as it would take a lot of time before things become normal.

BRP

BRP manufactures powersports vehicles and marine products. The company had been performing well before the coronavirus outbreak. BRP's North American retail growth has outpaced the industry in the last four years. Moreover, BRP's retail growth was better than the industry across all regions in the most recent quarter.

While the company's past performance impresses, the spread of the virus is likely to take a toll on its supply chain and the retail demand. BRP stock has plunged about 38% so far this year, reflecting a slowdown in demand. BRP's manufacturing activities have taken a hit, owing to the COVID-19 outbreak. Moreover, similar to Gildan Activewear, BRP also suspended its quarterly dividends.

Investors with a long-term investment view shouldn't worry much as the company's growth story remains intact. However, BRP is likely to underperform in the short term. The uncertainty surrounding the economy and rise in the unemployment rate is expected to hurt consumer discretionary spending and, in turn, its financials.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NASDAQ:DOOO (BRP Inc.)
2. NYSE:GIL (Gildan Activewear Inc.)
3. TSX:DOO (BRP Inc.)
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