Canada Adds 290,000 Jobs in May: Time to Buy Stocks?

Description

Last Friday, *Statistics Canada* released a surprising jobs report, showing that 290,000 jobs were added in May. The news came after a U.S. jobs report showing that that country had added 2.5 million jobs in the same month. While Canada's unemployment rate increased despite the jobs added, the U.S. saw both job gains and lower unemployment.

Taken together, these reports show that the gradual reopening from COVID-19 lockdowns is bringing back jobs. In turn, that may indicate that a broader economic recovery is coming. Job numbers are a very important economic indicator, because they influence consumer spending. With more people earning a paycheque, and more businesses reopening, the probability of getting past the current recession has increased.

That does not, however, necessarily mean it's a great time to jump into stocks.

The stock market has longed behaved as a "leading indicator," a metric that peaks or bottoms before the underlying economy. Investors priced in the effects of COVID-19 early and priced in the recovery early as well. By this logic, stocks may already be overpriced. However, that doesn't mean there aren't good buys to be found. By buying stocks that will directly benefit from the economic recovery, you may realize a strong return.

Stocks that benefit from economic recovery

The recession brought on by COVID-19 was/is artificial. It was not caused by structural problems, but by a deliberate policy of lockdowns to help combat the pandemic. Accordingly, many businesses were able to thrive, despite the widespread closures. Discount retailers, tech stocks, and wholesalers were just a few of the stocks that fared well.

By now, those stocks' successes in the COVID-19 era are probably priced in. Further dramatic gains are unlikely. But if you look at stocks that took a beating during the pandemic and now stand to recover, you may find some hidden gems.

One stock that could be good in this environment

Canadian National Railway (TSX:CNR)(NYSE:CNI) is a good example of a stock that will benefit when the economy recovers. In Q1, its revenue was basically flat due to a mix of rail blockades and COVID-19 lockdowns. However, it did manage to grow its earnings by 31% year over year, despite the sales loss.

In the COVID-19 era, CNR was neither a big winner nor a big loser. Its earnings were certainly a positive surprise, but its stock took a beating. By buying CNR ahead of its Q1 earnings release, you could have realized a quick 13% gain. By buying at bottom in March, your gain would have been closer to 30%.

After these gains, CNR is trading at 19 times earnings. That's not as cheap as before, but the stock may still be a buy. As previously mentioned, the company's Q1 earnings grew, despite flat revenue. In Q2, it will likely be a similar story. In Q3, however, the company will most likely report higher revenue *and* earnings. That's because, as a railroad, the company makes more money when there are more goods to be shipped. Most economists think that the economy will rebound dramatically by the third quarter, which would result in more goods being shipped. If that materializes, we can expect CNR stock to perform well.

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andrewbutton