Buy This 1 Class of Stocks for a V-Shaped Recovery

Description

The current economic situation has opened up some attractive value opportunities for low-risk, long-term stock investors. Those who missed out on the March sale still have opportunities to squeeze more upside from the markets. But which is the best sector to invest in for a V-shaped recovery?

The markets have not recovered yet

The story stateside is reassuring. The Fed was able to pump enough liquidity into the system to effectively counteract what was essentially the worst market crash since the Great Depression. The **S&P 500 Index** is now down just 1% for the year, having swallowed up the March crash that saw 31% wiped out in just three months. The **TSX Index** is down by only 2.5% year on year.

Even the oil sell-off has been flattened. Though oil prices are still down by more than 30% this year, even this could be considered something of a victory compared to its briefly negative per-barrel price tag. Markets are event-driven, and there have been plenty of events to overreact to this year.

Oil stocks have been especially volatile having been hit by the pandemic and plummeting oil prices, and growth in the green economy.

However, even though markets have been rallying, they haven’t quite recovered yet. There are still too many unknowns to predict the outlook for the rest of the year with any degree of accuracy, which means that value opportunities are likely to persist through the summer.

Analysts can point to steep rallies as signs of a V-shaped recovery, but many names are still negative year-to-date.

Weighing bank and energy stocks

Energy stocks, especially oil-weighted producers, are a key play for sudden upside in beaten-up sectors. However, bank stocks are also a strong play for a V-shaped recovery, and come with considerably lower risk. Banks are cyclical, which means that they are strongly tied to the economy.

As such, consumer sentiment – as well as credit appetite and debt loads – can weigh on banks and drag them down in times of economic stress.

However, compared with energy names, there is less risk involved in buying shares in the Big Five for the long-term. This is because oil names in particular have to contend not only with low demand but also oversupply.

Additionally, the pandemic has shown that even utilities stocks are not immune to supply and demand woes: The shutdown dampened energy demand across the board, weakening the outlook for electricity prices.

This makes bank stocks the stronger play for post-pandemic upside. Investors have a range of options when it comes to the Big Five. Each satisfies its own particular investment strategy.

CIBC stands out for its yield, currently paying 5.9%. **Scotiabank** is the most globally diversified of the Big Five, while **TD Bank** is a play for American growth.

A V-shaped recovery may prove faster than previous periods of economic weakness. One reason for this is that the economy has been affected by the same stressor – the pandemic – across multiple sectors.

While job losses have drained capital from the system, an infusion of credit could hasten a return to normalcy. In the long term, it will also strengthen an investment in the banking sector.

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