
Recession Investing Is Back: Here's Why to Buy Defensive Stocks

**Description**

There's a saying that bad news often comes in threes. That was certainly the case for TSX investors this week. Thursday saw two bleak outlooks dumped into the news cycle along with a resultant market crash. Though the markets rallied Friday, pundits were already beginning to revise a V-shaped recovery model as a potential W-shaped one. But if the pain isn't over yet, what should investors do to safeguard their portfolios?



## Dig into long-term stocks and get defensive

Jerome Powell, chair of the U.S. Federal Reserve, suggested Wednesday that a return to the pre-pandemic labour market could take years. In Powell's words: "We have to be honest that it's a long road," Powell said. "It's — depending on how you count it — well more than 20 million people displaced in the labour market."

Wednesday also saw the Organisation for Economic Co-operation and Development (OECD) report that the world is in the grips of the worst peace-time recession in a century. Among the projections was the potential for a second wave of COVID-19 to impact the Canadian economy by 9.4%. Even at current levels of transmission, the damage could be around 8% this year.

The revised outlook sent stocks into a meltdown, with the markets experiencing their worst contractions since March. The TSX closed down 650 points (4.2%). The Dow dropped 1,860 points (6.9)%, compounded by rising cases of COVID-19 and the official revelation that the U.S. had entered recession in February. Investors awoke Friday to tattered markets, underpinned by a dire outlook.

## A return to recession investing

Much of what happens next is contingent on how the reopening pans out. The OECD laid this out most succinctly in a series of Tweets on Thursday. The OECD warned that "as COVID-19 restrictions begin to be eased, the path to economic recovery remains highly uncertain and vulnerable to a second wave of infections."

In another Tweet, the organization warned that, "Job losses in the most affected sectors, such as tourism, hospitality and entertainment, will particularly hit low skilled, young & informal workers." A further Tweet warned that "Global economic activity is predicted to fall by 6% in 2020 if a second wave is avoided. However, in the case of a second outbreak, this drops to 7.6%."

Diversified dividends are the order of the day. Investors should refrain from panic selling and hold back on betting the farm. Utilities stocks that pays dividends and support a growth thesis are a strong buy right now, with names like **Algonquin Power & Utilities** standing out. Consumer staples stocks are also a solidly defensive play. Names like **Alimentation Couche-Tard** are performing strongly and make for a low-risk pick with built-in diversification.

Investors should plan for the best but prepare for the worst. Keeping cash on hand increases liquidity and also allows investors to snap up undervalued names. Having a watch list of stocks and desirable entry points will help investors to keep track of wished-for companies. In the meantime, investors should be prepared to trim weaker names during rallies and build positions during the dips.



**CATEGORY**

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

**POST TAG**

1. market crash

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

**Category**

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

**Tags**

1. market crash

**Date**
2025/08/20
**Date Created**
2020/06/13
**Author**
vhetherington