DANGER: TSX Stocks I'd Avoid Amid Canada's Recession

Description

Nobody knows when the insidious coronavirus disease will become a thing of the past. Some investors, like Warren Buffett, are battening down the hatches to limit their portfolio's damages in a potential bear-case scenario, and others are looking to position their portfolios to get the most upside on the advent of a safe, working vaccine that may land between now and mid-2021.

And a prudent few are adopting a barbell portfolio, striking a perfect balance of risks associated with COVID-19. This piece will have a look at two COVID-hit companies that I believe could be in for a lacklustre recovery from this crisis due to their discretionary nature. Even if we're due for a timely vaccine within the next few months, I'm still not an advocate of buying shares of the following firms.

Aritzia: A discretionary business that could take longer to recover from the Canadian recession

Aritzia (TSX:ATZ) is an "upscale" women's fashion retailer that's taken a hit to the chin amid the coronavirus crisis. The up-and-coming Canadian brand was finally starting to pick up traction just a few years after its IPO on the **TSX Index**, and then things came crashing down, as Aritzia felt the impact of the COVID-induced shutdowns.

For the Q1 FY2021 results, Aritzia delivered better-than-expected results, having demonstrated some resilience in the face of COVID-19 headwinds. The company's e-commerce platform continues to flex its muscles. With a minimal amount of leverage on the balance sheet, Aritzia isn't one of those retailers that's at risk of going under at the hands of this crisis.

That said, the coronavirus recession that will likely outlast the pandemic does not bode well sales growth nor gross margins over the next two years. Aritzia's "upscale" articles of clothing are quite pricy, and in times of economic hardship, the demand for such goods should be expected to take a long-lived hit.

I expect the discount rack will be full going into 2021. While I am impressed with the firm's digital presence, one must not discount the experiential factor of Aritzia's experiential stores that cater well to millennials. Aritzia will rise again, but the road to recovery will, I believe, be a lengthy one that could span three or more years.

Magna International: If peak auto is here, Magna could surrender a considerable chunk of its gains

Magna International (TSX:MG)(NYSE:MGA) shares have been surging of late, nearly recovering from the coronavirus crash suffered earlier this year. The recent momentum exhibited by electric vehicle makers like **Tesla** has undoubtedly spread to the automakers like Magna, despite the COVID-induced weakness in the auto sector.

Although the auto sector recovered significant ground in July, I think the increase was all due to a COVID-induced substitution effect. Nobody wants to take public transit or ride sharing these days, not with the coronavirus still out there. Those who didn't have vehicles before the pandemic are going to want to get them if this horrific pandemic drags on for another year or two.

Once this pandemic ends and it's safe to take public transit again, I suspect vehicle purchases will plummet again. Why? The coronavirus is going to leave a recession behind it. If it lasts longer than the pandemic, many consumers are going to be tightening their belts and cutting expenses, and big-ticket discretionary purchases are likely to fall.

Of course, I could be wrong about "peak auto" if we are due for an abrupt recovery from this crisis. But after Magna's recent run, I'd stick on the sidelines, because the recent auto recovery may not be as sustainable as most investors think.

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