Coronavirus Recession: 2 TSX Stocks I'd Avoid

Description

The coronavirus recession could easily get worse before it gets any better. With no good historical comparisons, we're headed into uncharted territory in the face of a second wave of coronavirus disease 2019 (COVID-19) cases. While there is an abundance of stocks that could prove to be undervalued if we're due for a timely advent of a vaccine, there are also risky cyclical names that I think could have far amplified downside if the world economy isn't so fast to heal from this crisis.

This piece will look at two stocks I wouldn't touch, no matter how much "cheaper" they get in price. While it's too early to call them value traps, value-conscious investors shouldn't seek to chase them on the way down in case a K-shaped recovery is off the table, and we're due for a lengthy recession that could rival that of the one we fell into 12 years ago.

If you're keen on the following names, I won't stop you from buying them. If you seek a desirable risk/reward amid profound uncertainties, though, it'd be wiser to stick to the sidelines before the coast is clearer.

CIBC

I would never have thought that **CIBC** (TSX:CM)(NYSE:CM) stock, a perennial underperformer, would be trading at middle-of-the-pack valuations to its bigger brothers in the Big Five. After doing a relatively decent job of weathering a brutal first half, though, CIBC stock has recovered much of the ground lost in the February-March sell-off quite quickly.

CIBC was an underdog heading into this crisis, and given its track record of crumbling like a paper bag at the first signs of a crisis, I'd say the number five bank scores top marks for its relative outperformance in the face of profound headwinds.

That said, I don't think CIBC's premium valuation will be sustainable. You see, CIBC just happened not to have the worst mix of loans going into the COVID crisis. With a considerable amount of exposure to domestic mortgages, CIBC stock ought to trade at a relative discount to all of its peers, with the exception of **Bank of Nova Scotia**.

At north of $100 and 1.2 times book value, I'd be inclined to sell CIBC, as I view far better bargains in the banking scene right now.

Magna International

Magna International (TSX:MG)(NYSE:MGA) is a remarkably well-run industrial. The auto-part maker took a hit to the chin earlier in the year only to come bouncing back in a hurry alongside the auto sector. Although management has done an impeccable job of steering clear of potholes, the company remains at the mercy of the ailing auto sector, which could weaken further amid the coronavirus recession.

There's a reason why firms within the auto sector have pulled their guidance amid this crisis. There's just far too much uncertainty. While the sector could recover quickly if this pandemic ends sooner rather than later, there's also the risk that a recovery trajectory could span more than five years if this coronavirus recession turns into a depression.

In any case, I'd much rather enjoy the show from the sidelines, and the autos are among the worst places to be at the cusp of a severe economic downturn. Now that shares have more than doubled off its March lows, I'd say now's a great time to take some profit off the table while investors are optimistic over the newly-inked deal with mid-cap electric vehicle (EV) firm Fisker.

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2. NYSE:MGA (Magna International Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
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