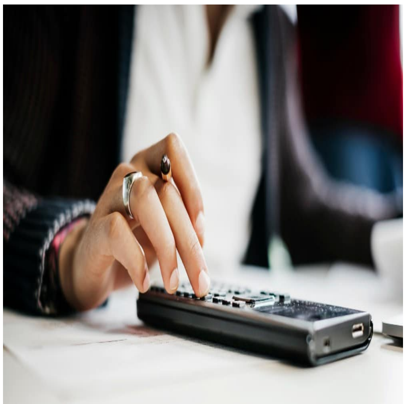

Don’t Fear the Fed: Buy These 2 Dirt-Cheap, Defensive Canadian Stocks Instead

Description

The Fed rattled the markets on Wednesday when they predicted two rate hikes in 2023. A rate hike 18 months from now seems to be the likeliest rate-hike schedule at this juncture. The broader markets initially plunged, only to bounce back the following day, with tech stocks leading the upward charge.

default watermark

Fed dot plot has investors’ nerves shot!

Undoubtedly, the Fed “dot plot” is quite scattered, signalling that the Fed doesn’t have a crystal ball, as inflation pressures continue to mount. In prior pieces, I’d described the situation as mostly being out of the Fed’s hands.

All they can do is forecast, share, and pivot accordingly in response to macro variables to the best of their ability. So, instead of trying to predict when we’ll enter a rising-rate environment, it can pay dividends to acknowledge the unprecedented uncertainties and invest accordingly. That means staying well diversified and not predicting whether the Fed will take on a more hawkish or dovish stance.

The Fed has an arsenal of tools, but it can only do so much, as inflation gets out of control. As such, investors should expect modest pivots moving forward, and with that, a rise in volatility, as inflation looks to collide with rate hikes coming the next three years.

In this piece, we’ll have a look at two defensive Canadian stocks that should hold their own in the face of rising volatility. Both names have low betas and are more likely to zig when the markets zag in any upcoming Fed minutes.

North West Company

North West Company (TSX:NWC) is a Canadian retailer that specializes in serving underserved rural localities. With a mere 0.5 beta and a juicy 4.1% dividend yield, the stock can act as shocks on your portfolio for when the market waters start becoming that much rougher. Undoubtedly, inflation will hit the already razor-thin margins of the grocers. As one of few options in northwestern North American communities, however, North West looks to be better able to shrug off any sustained rise in inflation.

North West stock may not be the sexiest Canadian stock out there, but boy, will you be glad you owned shares in the foundation of your TFSA if the Fed doles out a more hawkish surprise at some point down the road. Moreover, the stock trades at 0.7 times sales and 10.3 times earnings, making it a low-cost way to play defence for what could be a bumpy next few years for the **TSX Index**.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.B) is another essential retailer that's more immune from an inflationary margin hit than big-league grocers. Earlier in the year, Couche-Tard corrected quickly in response to its failed pursuit of French grocer Carrefour. The grocery pivot was a major shock to investors and has been acting as an overhang on the stock, despite the deal falling through almost immediately.

Couche-Tard investors and French regulators hated the deal, and now Couche-Tard finds itself in a strange spot. The firm has the liquidity to make a huge deal. The only question is whether such a deal will be in the convenience store space, which could spark a rally to new highs, or a grocery deal, which could cause Couche stock to drag its feet into year's end.

In any case, long-term investors will likely do well by picking up shares while they're at around 15.2 times earnings before management puts its foot back on the growth pedal in what could be a very fruitful post-pandemic environment.

default watermark

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:NWC (The North West Company Inc.)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing

Date
2025/07/27

Date Created
2021/06/18
Author
joefrenette

default watermark

default watermark