Market Correction: 2 Top TSX Stocks to Buy on a Pullback

Description

The **TSX Index** is starting to give back some of the 2021 gains. This isn't a surprise after the stellar run sent many stocks to overbought levels. A meaningful market correction would be healthy over the long term and we could see a significant pullback over the course of the coming days or weeks.

While a market correction is always scary, it gives investors with cash on the sidelines an opportunity to buy top TSX stocks at attractive prices.

CN

CN (TSX:CNR)(NYSE:CNI) recently walked away from its attempt to buy **Kansas City Southern**. While the deal would have extended CN's rail network into Mexico, it looked expensive at US$30 billion and some big investors were not convinced the move was in their best interests.

CN receives US$1.4 billion in break fees from Kansas City Southern as a result of the U.S. rail operator deciding to go with a bid from **CP Rail**, with a net gain for CN of US$700 million. The company had previously given Kansas City Southern US$700 million to cover an original break fee on the first agreement to join CP Rail.

CN is reinstating its share buyback program and investors should see a large dividend increase in 2022 now that the company isn't taking on a big chunk of new debt to finance a takeover.

Looking ahead, CN's existing rail network is already unique in the industry and positions the company to enjoy strong revenue and cash flow growth in the coming decades as economic growth occurs in Canada and the United States.

The stock fell from $148 to below $130 earlier this year when CN announced the takeover bid. It recently rallied on the news that the company would abandon the takeover attempt. At the time of writing the shares trade close to $150.

Any pullback from this level should be viewed as a good entry point for a buy-and-hold portfolio.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) has a great track record of providing investors with attractive returns driven by dividend growth and gains in the share price.

The arrival of the pandemic forced Royal Bank and its peers to set aside billions of dollars in cash to cover potential loan losses. The banks feared that a sharp rise in business closures and unemployment would cause a spike in defaults on loans and mortgages.

Government assistance programs helped companies and homeowners keep up their payments during the lockdowns. Now that the economy is opening up and the predicted housing crash hasn't occurred, Royal Bank can start to deploy its war chest of extra funds. Investors should see a generous dividend increase when the banks get the green light to restart distribution hikes.

In addition, it wouldn't be a surprise to see an aggressive share buyback program put into place. In addition, Royal Bank could decide to make a strategic acquisition to boost growth.

The company remains very profitable, even during these difficult times. As economic growth rebounds and interest rates begin to move higher, Royal Bank should catch a new tailwind. Higher interest rates could force an increase in defaults, but they also boost net interest margins. In the big picture, higher interest rates tend to be a net positive for the banks, as long as rates don't spike too high in a very short period of time.

The stock is already off the 2021 peak. Any meaningful move lower should be viewed as a good opportunity to buy RY stock.

The bottom line on stocks to buy in a market correction

CN and Royal Bank are leaders in their respective industries. The companies generate solid profits and should deliver strong dividend growth in 2022. Buying these stocks on dips has historically proven to be a rewarding move for buy-and-hold investors.

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Date
2025/07/26
Date Created
2021/09/20
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