1 Top Canadian Stock That's Fallen Into a Tailspin

Description

Consumer discretionary stocks took a major hit to the chin in recent months, with brewing fears over slowed earnings and a potential stagflationary environment that could be in the works.

Undoubtedly, many investors would rather sell their overly cyclical names with the intention of asking questions later, as economic conditions show modest signs of slowing down. After all, get caught on the wrong side of a cyclical trade and you could be at risk of facing amplified downside. Indeed, the greatest fear of those overweight discretionary and cyclical names is excessive Fed tapering or the triggering of a recession as a last resort to curb inflation.

Still, given the deflationary pressures brought forth by incredible advancements in technology during the pandemic (innovation tends to take off during times of crisis) and the wider range of tools available to the Fed, there may be no need to cause further economic pain to combat modestly higher-than-expected inflation levels that may still resolve themselves once global chip supply becomes less constrained.

Indeed, chips are the new oil of the modern era with effects on a wide range of industries that extend well beyond tech. As foundries throw everything but the kitchen sink to ramp up on the production front, the great chip shortage of 2021 may find itself falling into the rear-view mirror. Who knows? We may be thinking more about deflation rather than inflation should CPI numbers fall back to Earth in the early innings of 2022.

A top Canadian stock to buy on the way down

Undoubtedly, stagflation is a word that's been thrown around a lot lately. Things could still go horribly wrong, and Fed Chairman Powell may be wrong about his transitory views of inflation. But that doesn't mean that it's time to ditch your favourite discretionary **TSX** stocks, especially after they've shed over 20% of their value from peak levels.

While the broader TSX Inde**x** is ready to move onto higher levels, perhaps on the back of better-than-expected third-quarter earnings (the bar looks to be set pretty low these days), many quality Canadian stocks have continued to drag their feet.

Rolling corrections have become the new normal, and while the broader indices may or may not fall 10% from peak to trough after mostly recovering for a 5% dip, investors shouldn't ignore the quality businesses whose shares are selling off viciously ahead of an earnings season that may not be nearly as horrific as the Street expects. Undoubtedly, markets are at a crossroads, with a huge week of earnings right ahead of us, which may very well determine if broader markets have permission to move meaningfully higher than its early-September top.

Spin Master's tailspin seems unwarranted

As results come rolling in, the discretionary plays could have the most room to run. Think names like **Spin Master** (TSX:TOY), which have already sold off viciously ahead of what now appears to be a holiday season of shortages. This won't be the first time Spin came up short of meeting demand ahead of the biggest seasonal period of the year, and it probably won't be the last.

Regardless, investors should give the company the benefit of the doubt after the firm has proved more resilient than most expected. Indeed, the digital games business was an unprecedented success that steered Spin out of the worst of last year's lows. With a significant portfolio of brands and a track record of innovation, the recent 16.8% pullback in the name may be a great long-term buying opportunity for those willing to look beyond medium-term global supply chain woes toward an economic environment that may be a lot stronger than most expect.

Fool Amy Legate-Wolfe thinks Spin Master's woes are overblown, also touting the firm's digital strength as a potential positive offset of the already well-known pressures faced in the supply chain. Amy's right on the money. Spin Master is a compelling discretionary stock to buy on weakness.

Supply chain problems won't last forever. In the meantime, Spin's profoundly strong digital segment is more than enough reason to pick up the stock despite what's sure to be a reasonably modest holiday season for the toymaker.

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