



## Forget Stagflation! Battered Discretionary TSX Stocks May Be Bargains

### Description

There's no question that COVID-induced global supply chain hiccups have been a significant cause for concern for many firms, especially those in the auto sector. Some of the more cyclical Canadian firms, like **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) are [feeling the full force](#) of global chip shortages these days, with shares surrendering a big chunk of the gains posted in the back half of last year.

While chip supply may be constrained for another few quarters, demand may very well remain [robust](#) once such supply disruptions have had a chance to resolve themselves. Once such issues resolve, inflationary pressures may become tamer, and a 21% pullback in a quality cyclical name like Magna may prove to be completely unwarranted, as it looks to bottom out and continue higher.

### A return to the 1970s? Don't bet on it

Indeed, the return to a 1970s-type of world is a scary thought. And not just because of bell-bottoms or roller skates. Sustained high levels of inflation and meagre economic growth prospects paint an ugly picture for the equity markets, especially the discretionary stocks like Magna, which tend to have the most room to the downside come structured economic downturns. A double-dip recession sparked by a more hawkish pivot from the U.S. Federal Reserve is also a horrifying thought for investors.

At this juncture, though, full employment remains a top goal of the Fed. Still, the main question on investors' minds is, just how much inflation is Fed chairman Jerome Powell willing to stomach before he must shift stances, perhaps in a way that could upset financial markets?

Chairman Powell saved the markets from a catastrophe last year. If he can put the inflation genie back in the bottle without triggering a recession, the man could go down in the books as one of the best Fed chairs, even though U.S. senator and Powell critic Elizabeth Warren, who previously referred to Powell as a "dangerous man," may be inclined to object.

### Stagflation fears are almost palpable

While possible, a repeat of a 1970s-style of economy still seems highly unlikely, even given the recent CPI numbers surprised the Fed to the upside. WTI (West Texas Intermediate) prices have become steep after an unprecedented rally off last year's negative lows. And there's no question the commodities boom may cause some to look back to the 1970s. Despite the incredible run-up in oil, US\$80-85 or so isn't exactly a 70s-style shocker, although it may still be too soon to tell, given how ridiculously volatile oil has been of late. Nobody would have seen WTI pushing US\$85, as prices crumbled into the negatives in the first half of 2020.

While the road ahead may be uncharted territory, investors should not be inclined to bet on an extreme outcome. Whether it be the Roaring 20s or the Troubling 70s. Undoubtedly, inflationary pressures may still prove to be transitory despite a growing number of doubters, including **Twitter's** Jack Dorsey, who recently said that "hyperinflation" would hit the U.S. economy and that it would "change everything."

The case for being a contrarian looks to be a compelling one going into what's sure to be a turbulent end to a less-than-turbulent year. In 12 months from now, we may very well forget today's prominent "stagflation" fears, as we have for the "depression" fears that startled many back in February/March 2020, or the Roaring 20s euphoria that drew in so many market newcomers in the back half of 2020.

## My takeaway?

Stay the course and treat extreme predictions with a grain of salt. And if you're able, put your contrarian hat on with the stocks of firms with solid long-term fundamentals that have been discounted or ignored as a result of medium-term headwinds. Magna is a prime example of such a name. The auto parts maker has a front-row seat to an auto boom that could pick up where it left off before COVID-induced supply issues plagued the world. Pending a shocking hawkish pivot from the Fed, Magna seems to boast a highly favourable risk/reward scenario, considering the wide range of potential outcomes.

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