2 Canadian Stocks to Weather a Recession

Description

The combination of soaring inflation, rising interest rates, and the Russia-Ukraine war does not bode well for the global economy or many Canadian stocks. The supply of money is constricting, inflation is pushing prices ever higher, and geopolitical worries will likely slow global investments. While I am no economist, it would not be surprising if the economy took a turn towards recession this year.

While I am not calling a bear market, many stocks (especially growth, technology, and small-cap stocks) have been experiencing severe drawdowns since late 2021. For long-term investors, the sell-down may be a great time to pick up growth stocks at attractive valuations. However, there is no guarantee when these stocks will finish their steep decline.

If you don't like the short-term risks, there are many defensive Canadian stocks that you can shelter in for modest stable returns. If you are looking to weather a potential recession, here are two defensive stocks to buy today.

Canadian Natural Resources stock

There are many Canadian oil stocks that are cheaper than **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ). Over the past year, CNQ stock has climbed nearly 100%. It just hit a new all-time high last week. It is not cheap today. However, no other energy stock has a history of raising its dividend on average by 20% per annum for the past 10 years.

CNQ is one of the best managed energy companies in Canada. It has very long-life assets that consistently produce oil and natural gas with factory-like efficiency. It just announced fourth-quarter and year-end 2021 results that were fantastic. In the year, production hit a record high of 1.314 million barrels of oil per day. This generated $13.7 billion of adjusted funds flow and $8 billion of excess free cash flow (after dividends and acquisitions).

Given the strength in energy prices, CNQ confidently increased its dividend by 28% to $0.75 per quarter. This Canadian stock yields 4% today. For a stable, reliable energy stock, this is one that you can sleep easy at night owning.

Canadian Pacific Railway stock

Canadian railways are a quality, reliable sector to put money because of their defensive operating models and strong competitive moats. My favourite today is **Canadian Pacific Railway** (TSX:CP)(NYSE:CP). While it is one of the smallest Class 1 railroads in North America, it has delivered some of the strongest returns amongst peers. Over the past 10 years, it has a delivered an average annual return of 20%.

The company is in the process of getting regulatory approval to fully take over Kansas City Southern Railroad. The regulatory process could take as long as six months to a year. If approved, the deal would be transformational.

CP would become the only railroad connecting Canada, the United States, and Mexico on one line. Given CP's operational expertise, there are likely significant synergies that could be unlocked. Consequently, CP could enjoy an outsized growth profile for some time. Given commodity shortages across the globe, CP is well positioned to help move raw goods across North America and beyond to international markets.

This Canadian stock only pays a 0.77% dividend yield, but the company has done a great job re-investing and compounding shareholders for many years. I expect this will continue for years ahead.

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