Is a Recession Looming? How to Play it and Win With TSX Stocks

Description

Recession rhetoric is gaining steam again after the Russia-Ukraine war has blurred the global economic growth outlook. Who would have thought early this year that the global economy would be on the cusp of a severe downfall after the heroic comeback from the pandemic?

Now, with soaring commodities prices with inflation already at a multi-decadal high, the pace of rate hikes from global central banks will be a key to watch.

According to a *CNBC* report, the probability of recession in the U.S. in the next 12 months was raised to 33%. Notably, this has seen a jump after the Russia-Ukraine war. Earlier in February, the probability was around 10%. The same number for Europe stands at an alarming 50%.

It's still too soon to tell whether we'll see a collapse. However, it is always prudent to prepare portfolios that can withstand economic shocks. Generally, growth stocks correct more as broad economic growth falters. At the same time, those who can sustain pressure and are still able to steadily grow earnings outperform.

Here are three such TSX stocks that could beat broader markets in a recession.

Fortis

Canadian utility giant **Fortis** (TSX:FTS)(NYSE:FTS) has seen multiple recessions and has emerged strong. Its long dividend increase streak of almost five decades speaks for its strength and future growth visibility.

This is because utilities like Fortis operate a stable business model. The demand for electricity and gas stays relatively constant, whether it's a recession or an economic boom. So, Fortis earns steady revenues, which facilitates stable dividends. Fortis stock currently yields 3.5%.

Moreover, recession rhetoric will make broader equities nervous and can result in heavy selling. However, in the case of stocks like Fortis, investors turn to these safe havens, resulting in an outperformance.

TC Energy

Canadian pipeline giant **TC Energy** (TSX:TRP)(NYSE:TRP) is another appealing bet as the recession risk increases. TC Energy stock yields 5.2%, which is way higher than TSX stocks at large.

TRP has increased its payout for the last 22 consecutive years and aims to raise them by 3-5% for the next few years. In addition, its unique pipeline network will likely continue to generate stable cash flows for the future, which will enable stable dividends.

TRP stock has returned 25% in the last 12 months and 150% in the last decade, beating the broader Canadian market by a wide margin.

BCE

Another Canadian dividend heavyweight that can outperform in the current situation is **BCE** (TSX:BCE)(NYSE:BCE). It yields a handsome 5.4% at the moment. Also, its strong balance sheet and earnings stability facilitate steadily increasing dividends for the future.

Like utility stocks, telecom also plays well in recession-like scenarios. Telecom giant BCE's earnings are not directly correlated with economic growth, and its stock is also less affected by the broad market volatility. So, when equities fall, telecom stocks like BCE outperform.

BCE has returned 22% in the last 12 months, beating TSX stocks at large. Investors could see its earnings expand in the next few years, as 5G becomes mainstream. It has been heavily investing in its infrastructure and 5G expansion.

So, with a strong balance sheet and one of the biggest subscriber bases, BCE will likely see accelerated growth in the next few years. For conservative investors, it could be a handsome defensive bet, given the solid total-return potential.

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