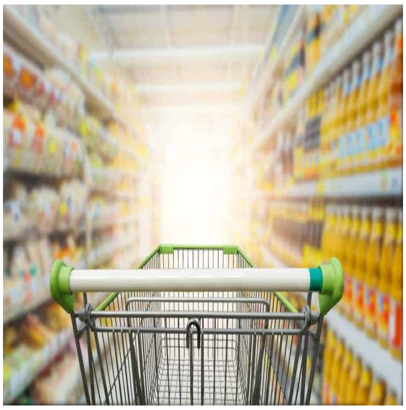

2 TSX Grocery Stocks to Buy in 2022 in Case of Stagflation

Description

When it comes to macroeconomic conditions, no scenario causes more worry for politicians, consumers, and businesses alike than the prospect of stagflation. Stagflation is a dangerous blend of both combination of stagnant economic growth plus higher-than-forecasted inflation.

With signs of job growth slowing down amid high fuel and food prices along with a red-hot real estate market, investors are understandably skittish when it comes to buying stocks. This comes at the heels of a recent interest rate hike, with more planned along the way as both the Fed and Bank of Canada adopt a more hawkish stance.

What can investors do?

A stagflationary environment wreaks havoc on most conventional investment portfolios, with previously high-performing growth stocks and even bonds expected to deliver muted or negative returns under such conditions. A better strategy is to pivot to the consumer staples sector.

This sector produces or sells staples that people must buy out of necessity regardless of economic conditions, such as food, beverages, and various household and personal products. They can often pass on higher costs to the consumer, which maintains their margins and profitability.

Loblaw Companies

First up is **Loblaw Companies** (TSX:L). As one of Canada's largest grocers, Loblaw engages in the grocery, pharmacy, health and beauty, apparel, financial services, telecommunications, and general merchandise businesses through both corporate and franchise stores. What's more incredible is that the company has been around since 1919.

Loblaw is not a fancy growth stock, but it is a very stable, mature blue-chip stock with excellent fundamentals and management. The company currently has $2.44 billion of cash on the balance sheet, a current ratio of 1.37, and operating cash flow of $4.83 billion, allowing it to weather bad economic conditions with ease.

With a very low beta of -0.02, Loblaw has very low volatility compared to the overall TSX. This makes it a great anchor for your portfolio during turbulent market conditions. With over 47.36% of the share float held by insiders, it's a good bet that management believes the company is undervalued. The company also pays a modest dividend yield of 1.33%.

Metro

Next up is **Metro** (TSX:MRU). Like Loblaw, MRU also operates in Canada as a retailer, franchisor, distributor, and manufacturer of food and pharmaceutical products. The company currently operates a network of 963 supermarket and discount stores, and 649 drug stores, all under various regional brands.

MRU has weaker fundamentals compared to Loblaw but are still solid for its sector. The company currently has $198 million of cash on the balance sheet, a current ratio of 1.10, and operating cash flow of $1.53 billion, which should give it enough runway to deal with recessionary conditions and high inflation.

MRU also has a very low beta of just -0.09, making it an excellent holding to lower the volatility of your portfolio. MRU also pays a dividend of $1.1 per share for a yield of 1.58%. The current payout ratio is 21.93, which is sustainable. Although MRU doesn't have as impressive fundamentals as Loblaw does, buying both for diversification is a good idea.

The Foolish takeaway

Investing during a recession doesn't mean just holding on to gold, cash, and bonds (a bad idea with rising interest rates). Stocks from the consumer staples sector can add excellent value to your portfolio, even during a prolonged bear market. These companies are able to maintain their margins during hard times, thanks to the essential nature of their products and services.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:MRU (Metro Inc.)

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