



My Top Defensive Canadian Stock to Buy for a Recession

Description

Another economic recession is the last thing we need after recovering from the worst of the 2020 coronavirus downturn. Today, employment has healed, and demand looks quite robust. But with supply chain issues still a problem, and with geopolitical tensions and inflation rising to unprecedented levels, all while a new variant of COVID-19 spreads across the globe (the BA.2 strain), it's really hard to imagine a scenario where the economy can continue powering forward, as the U.S. Federal Reserve looks to turn against it.

Indeed, it's really hard to be optimistic when so many things are going wrong in the world. The macro environment is choppy, and the inverted yield curve in the U.S. is a dire indication that a recession could be in the cards as early as 2023. Indeed, we're hearing the word "recession" a lot these days, especially after a turbulent Tuesday and Wednesday of trade that saw stock markets surrender a substantial chunk of the gains posted since bottoming out in March 2022.

From dovish to hawkish: don't panic

A previously dovish Fed member and economist, Lael Brainard, is sounding incredibly hawkish of late, with an aim to combat inflation that's flirting with 8% levels. Indeed, an economy cannot function properly with such jarring price increases. The Fed thought that inflation would be transitory when it first made an appearance, and now they may be in a spot to pay for the unfortunate mistake of letting inflation run hot for a bit longer than desired. Inflation isn't backing down. It's continued to climb, and the Fed is ready to take drastic action to put the genie back in the bottle.

Will it be easy to do so? Probably not. Around eight or nine rate hikes are currently being [priced](#) in. Could 10 be possible? If inflation doesn't go away anytime soon, I would not be surprised to see 10-year rates move above that dreaded 2.75% mark.

With some bears now speculating that a 50-basis-point or even 100-bps hike could be in the cards soon, fear is back in the air on Wall Street, with the growth trade steadily sinking lower once again. Unfortunately, those who bought the dip in speculative tech names are now under a considerable amount of pressure, as the toxic combo of rate hikes, inflation, and recession may very well be on the

horizon. The 1970s levels of stagflation could also be in the cards, as the Fed goes into hawk mode, with the Bank of Canada (BoC) likely to follow suit.

Amid inflation and volatility, investors should stay the course and play it safe with defensive dividend stocks on the TSX. Think lowly-correlated companies with operating cash flows that won't be drastically altered by a potential 2023 recession.

Canadian Utilities: a defensive dividend stock to consider as recession fears rise

Canadian Utilities ([TSX:CU](#)) is just one of many low-beta plays that may be worth the price of admission these days, with so much worry about what's to come in late 2022 and early 2023. Undoubtedly, things are less than sanguine. With valuations still stretched across some of the unprofitable tech companies, I'd argue that boring is the new beautiful and may be for the next 18 months, as the bear may finally be given a chance to emerge from his cave.

At \$39 and change per share, shares of CU are now cheap at over 32 times trailing earnings. The stock is up a whopping 13% from its February 2022 bottom and could be in a spot to break out to new highs at some point over the next year as the return to value takes hold.

With a 4.5% dividend yield, I'd not hesitate to nibble at a few shares if you find your portfolio is not yet ready for what could be a turbulent finish to 2022 ahead of another recession whose blow we hope central banks can soften. In any case, I'd be an investor here rather than looking to get in and out because, believe it or not, positive surprises can still happen. Further, inflation could persist even as rates rise, elevating the penalty for holding excessive amounts of cash.

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