Do You Fear a Recession? 3 Insanely Cheap Stocks to Buy Now

Description

The fear of recession is mounting amid rising inflation and Fed interest rates. After the Fed hiked the interest rate by 50 basis points, the market entered risk-aversion mode. The S&P 500 index, Nasdaq 100 Composite Index, and the TSX Composite Index fell 2.6%, 3.3%, and 2.4%, respectively, on May 9. Analysts and economists warned of a recession, although the stock market has not yet shown that level of panic.

Wall Street goes defensive as recession becomes evident

in a *Bloomberg* interview, **JPMorgan Chase** CEO Jamie Dimon warned of a recession. He said there is a one-third chance that the Fed could curb inflation without instigating a recession. He expects a 33% chance of a mild recession and 33% of a severe recession. While he is pessimistic about the future, he sees strength in the current economy with rising consumer spending, jobs, and strong business fundamentals.

While warning bells are ringing, Wall Street is mixed, with the S&P 500 Index and TSX Composite Index down 16% and 5.2% year to date. That's a mild reaction and represents a downturn instead of a crash (more than 30% dip). The mild reaction comes as investors cash out from growth stocks and invest in defensive stocks like energy and healthcare.

This got me thinking that markets have become more mature. Could it be that the market recovers faster from a recession as it did during the pandemic? While recovery is unknown, there is more of a dip in the short term, as investors price in the recession anxiety.

Three stocks to buy in the recession dip

You can make the most of the recession in three ways. You can buy evergreen stocks with robust balance sheets that can withstand recession and grow in the long term. Or you can go defensive and buy stocks that do well in a falling economy. Or you can buy shares of stocks whose prices are down because of short-term issues, but long-term growth potential is intact.

Evergreen stock

The evergreen stock that I suggest buying at any given time is supply chain solutions provider **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX). The pandemic and now the Russia-Ukraine war disrupted the global supply chain. Companies are looking for alternative suppliers and airlines and logistics companies for alternative routes. This chaos has pulled Descartes stock down 25% year to date and 35% from its November 2021 high.

However, the company's fundamentals remain strong, with 22% revenue growth and 44% adjusted EBITDA margin in full year 2022. It has US$213 million in cash reserves and no long-term debt, giving it the flexibility to withstand a recession. The stock is trading at 12 times its sales per share, making it a value buy for a stock that delivered a 29% average annual return between 2017 and 2021.

The stock is close to oversold with a relative strength index of 34 amid overall market weakness. It could make a new 52-week low before bouncing back.

Defensive stock

While Descartes can give you growth when the stock market recovers, **BCE** (TSX:BCE)(NYSE:BCE) can give you dividends during the recession. The telecom giant has attained the resilience of a utility stock in this digital age economy. The company's accelerated capital spending on 5G infrastructure during the pandemic is bearing fruits. Its revenue and net earnings surged 2.5% and 36% in the first quarter, as it increased its 5G offerings.

The company's net leverage ratio is stable at 3.2, which shows it has the flexibility to withstand a recession. It has maintained its 2022 target of 2-10% growth in free cash flow and 5% growth in dividend per share. You can buy BCE stock now and lock in a 5.3% dividend yield for a recession.

Long-term growth stock

My long-term growth pick is **Northland Power** (TSX:NPI) because of its exposure to wind and solar energy. The United States and Europe are accelerating their investments in clean energy amid the energy crisis.

Northland Power plans to make 2.9 GW projects operational over the next two years, adding $600 million in annual adjusted EBITDA. It has 12 GW of wind energy projects in the pipeline in the long term. The stock currently has a 3.09% dividend yield and a potential to deliver capital appreciation and dividend growth in the long term.

CATEGORY

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2. NYSE:BCE (BCE Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:DSG (The Descartes Systems Group Inc)
5. TSX:NPI (Northland Power Inc.)

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