



1 Oversold TSX Stock I'd Buy on the May 2022 Dip

Description

Sell in May and go away: many investors are considering that after a brutal start to the year. With volatility inching its way into late spring, there's some worry that we could be in for just as turbulent a summer, as central banks tighten. A considerable number of double (50-bps) rate hikes are coming. Investors have braced themselves for such hikes to weigh on corporate earnings.

With a mixed quarter for stocks that were mostly met with punishment, it seems like there's no path higher from here. We've been stuck in a negative, bearish mindset for nearly five months now. While all hope seems lost, the markets arguably offer a magnificent risk/reward scenario today.

With everybody in panic mode, nearly everyone is acting as though stocks are headed to zero. Exacerbating the panic is the selloff in the bond market. Indeed, it's quite rare to have stocks and bonds both selling off. Gold stocks and crypto have not fared too well, either. And cash continues to wither at the hands of inflation.

The panic-selling season has hit us

It seems like a recession or stagflation — stagnant growth and high inflation — is unavoidable. Investors fear the Fed again, as they've fallen behind the curve.

With April CPI in the states coming in at 8.1%, there's a sign that we may have hit peak inflation. However, the numbers were still [hotter](#) than expected. With front-loaded rate hikes coming, inflation may be dragged down to more [manageable](#) levels in 18 months. And this cooling of inflation may not require the economy to tank. Indeed, it takes a while for monetary policy to impact the inflation rate, but there is room to be optimistic that the worst of inflation is behind us.

Even if we are heading for a recession, there may be less to fear for investors than fear of inflation itself.

Consider shares of **Leon's Furniture** ([TSX:LNF](#)), a Canadian retailer that's way [oversold](#).

Leon's Furniture

Leon's is a discretionary retailer that's seen its shares sink 30% year to date. In a recession, furniture, and other big-ticket items just do not sell well. Indeed, everyone seems so convinced that we're marching slowly into a painful economic downturn, so it's not a mystery as to why LNF stock has slipped so viciously.

With the stock back at 2020 levels at \$17 and change per share, though, investors' fears may be a tad overblown. The \$1.2 billion company could have plenty of upside if recession fears are proven wrong and central banks don't need to hike nearly as fast as the Street is expecting.

At 6.6 times trailing earnings, LNF stock is in deep-value territory. Though many may pass it up as a value trap, I think the well-run retailer offers a great risk/reward scenario. Sure, supply chain woes and all the sort will continue to weigh this year, but in due time, they will pass. And when they do, LNF stock will likely pick up where it left off in the back half of 2021.

With a 3.7% dividend yield, LNF stock is a very intriguing candidate for contrarians. Be warned, though, if a recession does hit, shares could easily return to the lows of 2020.

The bottom line

Leon's Furniture's managers are "cautiously optimistic" about the fiscal year. Even with the recession chatter and talks of stagflation, the company is well poised to continue improving what it can. Once the tides inevitably turn, I think it'll be off to the races again. Many first-time millennial homebuyers will need the furnishings. This trend alone makes LNF a great long-term hold.

CATEGORY

1. Investing

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1. TSX:LNF (Leon's Furniture Limited)

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