Undervalued REITs to Buy as Markets Plunge Into a Bear Market

Description

The stock market could be on the cusp of falling into a bear market. The Nasdaq 100 is already in one, and the S&P 500 is just one awful day away from being down 20% from peak to trough. Undoubtedly, the current bull market is on life support. It's just over two years old and is likely to fall, as investors brace for a Fed-induced recession. Every week, things seem to get gloomier. Inflation continues to run hot. In Canada, inflation climbed yet again, flirting with 7%. Though inflation is showing signs of peaking, I think until it rolls over to more manageable levels (think the 2-4% range), stocks will continue to be at the mercy of the Fed.

The Fed made such a hawkish pivot that it sent stocks nosediving off a cliff. At this juncture, nobody knows how much more pain will need to be inflicted on your average stock before inflation can be tamed. Undoubtedly, a nearly 20% pullback in the S&P 500 is excessive. It prices in some probability of a so-called hard landing. But could it be that investors are too pessimistic at this juncture?

Time to be greedy in the REIT space?

Greed has turned to fear in a hurry this year. And it may not be over yet. Arguably, the stocks sitting in the blast zone of this market selloff are too hard to buy. We're talking about Shopify and names like it, which could easily shed another 20% or even 40% of its value from current levels.

Instead of trying to be a hero and chasing the biggest ricochet opportunities, look to buy securities that probably didn't deserve to follow everything else lower. That's what paid off big-time during the 2020 stock market crash, and it's a strategy that I think could be profitable once again.

In this REIT space, **CT REIT** (TSX:CRT.UN) and **Granite REIT** (TSX:GRT.UN) stand out to me as magnificent bargains.

CT REIT

CT REIT is off around 6% from its high to around $17 and change per share. Undoubtedly, the REIT has held its own better this time around because its top tenant, **Canadian Tire**, is one of the most durable retailers in the country. Though a recession will weigh on consumer spending, Canadian Tire's balance sheet is so healthy that CT REIT shareholders don't need to worry about a distribution reduction.

Arguably, CT and Canadian Tire have been through the worst, with lockdowns in 2020. With a 4.9% distribution yield, CT REIT remains a great way for Canadian investors to help reduce the hit of inflation. Though I'd be more comfortable at around $15-16 per share, with a 5.5-6% yield, I think any such damage in the REIT will be unwarranted.

Granite REIT

Granite REIT is attempting to comeback from a fall into bear market territory. The industrial and logistics REIT houses auto-part maker **Magna International**, a very high-quality, blue-chip firm that's unlikely to miss a month's rent. The REIT derives revenue from Canada, the U.S., Austria, and other parts of Europe, making Granite a geographically diversified play.

While Granite has slipped alongside everything else, I don't think investors have anything to fear. The 3.6%-yielding distribution is supported by some very resilient cash flows. Further, the impact of higher rates may not be as detrimental as investors think. Granite looks oversold, and when markets find their footing again, I see the name right back at all-time highs north of $100 per share.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)

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