2 Oversold TSX Stocks Due for a Big Rally

Description

With central banks put between a rock and a hard place going into the summer, broader stock markets could continue to be turbulent. Tech and high-multiple growth plays are likely to continue leading the downward charge, as jumbo-sized interest rates finally hit. While value and dividend stocks could be resilient, it's not guaranteed that they'll hold their own, given signs that the pain has broadened across more value-conscious sectors.

Indeed, sometimes there's no place to hide when there's a rush for the exits. Many investors will continue to doubt the sustainability of any bounces, given how many of us got punished from the last bear market bounce. It's hard to find anyone who's remotely bullish these days, with all the economy's headwinds.

Oversold blue-chip stocks that seem overdue for a bounce

Regardless, when the sustained rally off the market bottom does finally happen, many are sure to doubt it. That's why it's a good idea to be a gradual buyer of stocks over time. You don't need to reach for the fastest-falling knives. But you can nibble away at the blue-chip dividend stocks while their yields swell slightly above their five-year historical averages. Indeed, this market will eventually revert to the mean. Nobody knows when or how, but few will see it coming.

In this piece, we'll check out two oversold dividend stocks that I think are already oversold and undervalued. Consider shares of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM).

Bank of Nova Scotia

Bank of Nova Scotia is Canada's most internationally exposed Big Six bank. Though the COVID crisis and Ukraine-Russia conflict has hurt the emerging markets a great deal, I think that beginner investors should look to diversify internationally if they've yet to do so. The recent bout of volatility has created a historically attractive entry point for those looking to invest beyond just Canada or the United States.

After shedding more than 15% of its value in a quick correction, BNS stock looks like a great value at just 10.4 times trailing earnings alongside its 4.8% dividend yield. Undoubtedly, the weakening macro environment and numerous geopolitical risks have weighed on the big banks. Though a global recession could pummel BNS stock further, I think many are discounting the capabilities of management. They've gotten through hard times before, and they'll do so again. With that, I view BNS stock as an excellent bargain for those looking for greater geographic diversification.

Brookfield Asset Management

Brookfield is fresh off a 24% plunge from peak to trough. The alternative asset manager has stumbled alongside almost everything else in recent months. As signs of a recession grow, I'd argue that the dip in the legendary firm is more than buyable. The stock trades at 20.5 times trailing earnings with its 1.2% dividend yield. Undoubtedly, the dividend is nothing to write home about, but the magnitude of dividend growth over the next 10 years should not be discounted.

Looking ahead, Brookfield will be spinning off its asset management business as it looks to lighten up and focus on longer-term opportunities. With that will come great uncertainty. Regardless, I think investors are too quick to throw in the towel amid recent market jitters.

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3. TSX:BN (Brookfield)
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