
Top Defensive TSX Stocks to Buy if There's a Recession

### Description

A recession is when there's a temporary economic decline — typically identified by a fall in the gross domestic product (GDP) for two consecutive quarters. The International Monetary Fund (IMF) explains GDP: "GDP measures the monetary value of final goods and services — that is, those that are bought by the final user — produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country."



Of course, recessions can last for longer than half a year. Recessions also come with stock market downturns. In this risk-off scenario, investors will seek safer investments like bonds and gold. However, the stock market has delivered the best returns in the long run. Buying a diversified basket of quality stocks during market downturns should lead to satisfactory total returns for the long haul.

Here are some top defensive **TSX** stocks to potentially buy if there's a recession.

## Top defensive utility stock

**Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP) delivered 10-year annualized returns of about 17%, which outperformed the U.S. stock market by about 4.6% in the period. Furthermore, during this decade, the utility provided almost three times the income as the U.S. market. Additionally, during this time, BIP stock increased its dividend by almost 10% annually, which is high for a utility.

As a globally diversified owner, investor, and operator of quality infrastructure assets, Brookfield Infrastructure is always able to put capital in the best risk-adjusted investments. This also implies it will take the opportunity to sell mature assets and redeploy the capital into other investments. When the dividend stock is cheap, it has also performed stock buybacks, which is beneficial for long-term investors. As a value investor, BIP knows where to invest for great long-term returns.

BIP's portfolio consists of utility, transport, midstream, and data infrastructure assets. Management targets a cash-distribution growth rate of 5-9% per year, supported by cash flow growth and a sustainable payout ratio. This is a good growth rate for utilities.

The dividend stock is fairly priced today and yields about 3.5%. If it were to trade cheaply during a recession, I would not hesitate to add to the name given its solid track record of stable cash flow and dividend growth.

BIP is doing a three-for-two stock split this month — shares that will be payable on June 10 to unitholders of record at the market close of June 6. Here is a friendly reminder that stock splits *do not* change the valuation of the underlying stock. Therefore, the stock isn't cheaper when it trades at a lower price immediately after the stock split. However, this action does make the stock more liquid.

## A defensive Canadian bank stock

**Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has a more retail-focused banking business, which makes it a lower-risk investment. In the last 10 years, its total returns were approximately 12% per year, which is about 1% below the U.S. stock market returns in the period. However, TD stock provided roughly 78% greater in dividend income. During this time, TD stock increased its dividend by about 9% annually, which is pretty impressive.

Banks' business performance is sensitive to the economic cycle. Therefore, during recessions, there's no doubt that bank stocks will decline meaningfully. Today, the dividend stock is fairly priced and yields about 3.7%. If it were to sell off during a recession, I would consider buying the solid bank stock.



When investors get their hands on defensive TSX dividend stocks like BIP and TD at cheap valuations, they can consider holding for a long, long time for long-term price appreciation and passive-income generation.

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3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:TD (The Toronto-Dominion Bank)

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