Stock Market Correction: 1 Cheap Passive-Income Pick to Weather the Storm

Description

The TSX Index plunged back into a correction, as U.S. markets fell deeper into bear market territory for the first time in weeks. The recent bout of investor angst came ahead of the Federal Reserve decision.

Eventually, the Fed raised by three times in one go (or by 75 bps), inducing a bit of a relief rally, as the Fed was open to either a double (50 bps) or triple hike come its next meeting scheduled for around a month later. Undoubtedly, inflation has gotten out of hand, and investors are still feeling a tad jittery after CPI spiked to 8.6% — yet another high not seen in more than 40 years.

Rates and recession: Why the stock market correction came so suddenly

Though the Fed is ramping up in its fight against inflation (75 bps hikes are very rare), and the effects will take a bit of time to kick in, investors seem to have confidence in the Fed, as it guides us through a period of slowing economic growth. Could we be headed for a recession in 2023, as so many pundits think? While there's a higher probability of such than a few months ago, I'd still argue that we're unlikely to fall into a severe downturn in 12-18 months from now.

Oil prices are too high, and the Bank of Canada (BoC) is further behind the curve than the Fed. Arguably, the loonie could take a big hit to the chin, as U.S. inflation rolls over at a quicker rate in response to front-loaded rate hikes.

Here in Canada, the BoC seems likely to follow the Fed step for step. Still, they've fallen way behind and should have never let Canadian inflation run above 6%. While it's not as hot as in the United States (8.6%), it's still a huge problem for many Canadians who are struggling with affordability, especially with food and gas.

As the TSX Index looks to bounce back from a market correction, I'd focus on passive-income stocksor REITs. Higher-yielding dividend plays are among my favourite to buy on corrections or bear markets because of the chance of "locking in" a higher yield.

H&R REIT: One of the cheapest passive-income on the TSX Index

Currently, **H&R REIT** (TSX:HR.UN) stands out as a great passive-income play for Canadian investors who seek shelter from the rate-induced market volatility.

At writing, shares are down around 45% from their five-year highs; the recent slump in the REIT was induced by fears of an economic slowdown and higher rates. Undoubtedly, higher rates don't bode too well for property prices. In any case, H&R is still down a country mile from its pre-pandemic levels. The REIT never did recover, and management's recent divestitures are not helping investors regain any confidence in the REIT.

Indeed, H&R slashed its distribution amid pandemic headwinds. It's a diversified REIT with a lot of office exposure, after all. Given the rise of remote work, office demand is not going to recover anytime soon, especially since monkeypox is another virus that could incentivize workers to stay at home.

With a safe 4.3% yield, H&R is a great value at just 2.5 times trailing earnings. Yes, H&R is dirt cheap — one of the cheapest on the TSX after its correction. But it's one with quality assets that investors may be discounting too harshly amid the latest round of selling.

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