



Is a Recession on Your Mind? Put Your Mind at Ease With 2 Value Stocks

Description

The stock market has been in a [correction](#) zone since the World Bank [raised](#) a warning of stagflation on June 7. The U.S. Fed aggravated this issue by increasing the interest rate by 75 basis points and reducing the 2022 gross domestic product (GDP) growth outlook to 1.7%. An economic measure denotes GDP growth below 2% as stagnation. The fears of a recession in the United States have put recession in the minds of Canadians too. Is the recession a bad thing or a good thing? Let's find out.

What happens in a recession?

A recession is a state where the economy suffers from a demand shock. When there is no demand, prices fall, and industries reduce their production capacity. As overall buying and selling of goods and services reduce, gross domestic product (GDP) growth becomes negative. As businesses get affected, stock prices fall. Investors cash out their stock investments over fears of losing money.

In the current market, inflation is rising due to the oil and commodity supply shock from the Russia-Ukraine war. Moreover, the central bank is pulling back the stimulus money to control inflation and stop excessive buying. The rising inflation and interest rate are reducing disposable income, affecting consumer demand. The demand is shifting from discretionary items to staples. The University of Michigan consumer sentiment [index](#) for the United States has dipped to the September 2008 level.

The supply shock followed by the demand shock has pushed U.S. real GDP growth to -1.4% in the first quarter. This could aggravate in the second quarter. It's possible that by next year, the economy could be in a recession, as interest rate hikes may not be able to resolve the issue of rising prices, unless an alternative supply chain is in place.

Two value stocks to defend your portfolio during a recession

The recession might create a temporary weakness in the real estate industry and the stock market, but they will revive as the economy recovers. Here are two value stocks that can preserve your portfolio in a recession and enhance it in recovery.

- **Horizons S&P/TSX 60 Index ETF** (TSX:HXT.U)
- **True North Commercial REIT** ([TSX:TNT.UN](#))

The market ETF

The TSX has seen significant recessions like the 2009 financial crisis, the 2018 U.S.-China trade war, and the pandemic. If you bought into these downturns, your portfolio is in the money in the current dip. The market rewards those who buy during the dip. While individual stocks could be risky, the overall index is not.

Horizons S&P/TSX 60 Index [ETF](#) replicates the top 60 stocks on the TSX by market weight and rebalances any changes quarterly. The recession is like a spring cleaning. Companies with weak fundamentals and inflated valuations get a reality check and those with strong fundamentals thrive and return to where they belong.

For instance, the pandemic inflated **Shopify's** stock price to a level where it became the most valued stock on the TSX. But the 2022 market correction brought the stock price to its correct valuation. Hence, it is called a correction.

The HXT.U ETF is undergoing the cleaning. After the recession is over, it will be packed with value stocks that will lead the economy to recovery. The ETF is down 16% from its April high and is currently oversold, allowing you to book your spot in the recovery rally and grow 20-30% in three years; you could double your money in eight to 10 years.

The REIT that gives a yield over 9%

The market ETF is beneficial in recovery, but True North REIT can give you passive income in a recession. This pure-play commercial REIT has a nine-year history of paying stable monthly distributions through its rental income. The REIT did not slash its distributions during the pandemic when the commercial landscape took a hit from lockdowns. The key to this resilience is its 76% exposure to government and credit-rated tenants.

The market correction has increased the distribution yield to 9.5%. This is a good time to lock in this income and fight upcoming inflation.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:HXT (Horizons S&p/tsx 60 Index ETF)

2. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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