Stay Invested in a Recession: Increase Positions in 2 Value Stocks

Description

Market declines are disconcerting, but it doesn't mean you have to sell. A bear market is one of two cycles in the stock market, and a bull market usually precedes it. The TSX's bull run from 2021 is over, and top-performing sectors last year, financials (-12.07%) and consumer staples (-2.46%), are underperforming year to date.

Today, headline inflation and a looming recession creates unease among investors. However, it's also an excellent opportunity to increase positions in value stocks from each sector. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Alimentation Couche-Tard** (TSX:ATD) should hold up well against further volatility.

Durable rebound from a downturn

Canadian big banks, including CIBC, have proven their stability from economic headwinds. The fifth-largest bank has kept investors whole on dividend payments every year since 1868. As of this writing, the bank stock trades at $64.28 per share, or 11.92% lower from its year-end price on 2021. It could stage a durable rebound from a downturn.

However, the dividend yield of 5.08% is among the highest in the banking sector. The $58 billion lender raised its dividend by 3.1% after Q2 fiscal 2022 despite the 19% decline in net income versus Q1 fiscal 2022. CIBC's loan-loss provision tripled quarter over quarter, while non-interest expense climbed 13% year over year.

Victor Dodig, CIBC's CEO, said, "We delivered well-diversified growth across our bank in the second quarter as we continued to invest to execute our client-focused strategy and further build on our momentum. As we go forward, we'll continue to take a purpose-led approach as we navigate the evolving operating environment."

The net income of the Canadian Commercial Banking and Wealth Management business in Q2 fiscal 2022 increased 20% to $480 million versus Q2 fiscal 2021. Management expects this unit to deliver the fastest sales growth over the next three years (10-13% CAGR).

CIBC also targets a 7-10% compound annual revenue growth for its Canadian Personal & Business Banking and Capital Markets divisions through 2025. In the medium term, Dodig expects the bank's revenue to increase at a faster pace than spending. He added, "The current pace of spending is more elevated than we would envision over the longer term."

Top gun

Alimentation Couche-Tard is the top gun if you're looking for a superb value stock in today's complex environment. The $55.18 billion company revealed plans to revolutionize the convenience store industry with the deployment of over 10,000 touchless self-serve cash registers in more than 7,000 Couche-Tard and Circle K stores.

More importantly, the consumer staple received upgrades or buy recommendations from CICB Capital Markets and **Wells Fargo**. The former, through Equity Research Analyst Mark Petrie, expects Couche-Tard to deliver stronger-than-expected industry fuel margins in Q4 2022.

Analyst Anthony Bonadio, an analyst from Wells Fargo, is bullish on Couche-Tard's ability to capitalize on M&As in the fragmented industry. It should also boast an attractive valuation and could be insulated from longer-term headwinds. At $53.28 per share (+0.7% year to date), the stock pays a modest but safe 0.82% dividend.

Value over growth

Market analysts suggest taking positions in large-cap stocks during periods of uncertainty. Furthermore, investors should lean more toward value stocks over growth investments.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:ATD (Alimentation Couche-Tard Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)

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