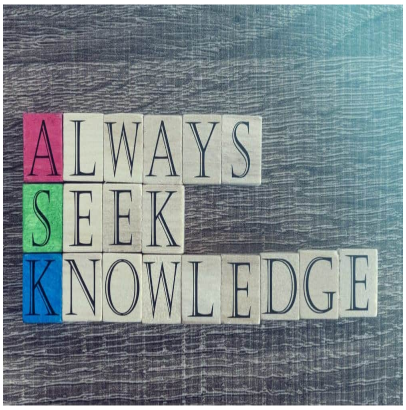

The 2 Best Stocks to Own in a Recession

Description

Concerns about a recession have amped up in recent months. Squeezed by inflation and rising interest rates, consumers are cutting back on spending. This could eventually trigger a recession.

Most companies are not prepared for a sudden drop in demand, but some are more resilient. Here are the top two stocks investors should consider during a downturn.

Recession stock #1

Metro (TSX:MRU) has been much more resilient than the rest of the stock market. While the stock has pulled back significantly from its 52-week highs, it is still up 1.1% for the year, outperforming the TSX, which is down by more than 5%.

That's because Metro's underlying business is driven by pharmacy and grocery sales — both of which are essential. Consumers might substitute some items for cheaper alternatives, but they can't eliminate their weekly grocery bill. That puts Metro in a solid position to weather the upcoming storm.

Metro operates 960 stores distributed across Quebec and Ontario. It also boasts a network of 650 pharmacies catering to the needs of diverse population segments. Metro is also ahead of the curve in tech-driven efficiency. It's been expanding its online ordering and delivery services.

In the most recent quarter, Metro delivered solid financial results with $198.1 million in diluted earnings or $0.82 a share, representing an impressive 9.3% year-over-year increase. In addition, food same-store sales in the quarter were up 11.5% year over year, as pharmacy same-store sales increased 11%.

Metro is a defensive play for any investor looking to take up some risk when most stock market counters are under pressure. The stock is currently trading at a price-to-earnings ratio of 19.7, which is cheap given the outlook.

Recession stock #2

Loblaw Companies (TSX:L) could be another solid hedge against inflationary pressures and a potential recession. The stock is up by more than 7% for the year, while the broader Canadian stock market is down by about 7%.

Loblaw Companies is insulated from inflation as groceries and medicine will always be in demand irrespective of the economy plunging into recession. In fact, the company's discount brands such as No Frills, President's Choice, No Name, and Joe Fresh tend to attract more traffic when consumers are tightening their purses.

Additionally, it boasts of Shoppers Drug mart under its banner. That means much of Loblaw's core business is essential enough to thrive during a downturn.

A 10% pullback from all-time highs presents an opportunity for long-term investors to scoop the stock at a discount. Loblaw stock now trades at a price-to-earnings ratio of 19.7, which is in line with Metro but lower than the rest of the market.

Keep an eye on this attractive opportunity.

Bottom line

Investors are now more worried about a recession than inflation. We don't know what lies ahead but adding robust essential businesses like Loblaw and Metro to the portfolio could be a smart move now.

CATEGORY

1. Investing

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2. TSX:MRU (Metro Inc.)

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