3 Oversold Stocks to Buy for a TFSA

Description

Many TSX stocks are starting to get ridiculously oversold after another brutal day of selling on Thursday. The TSX Index is down 15% on the back of economic sluggishness — Canada's economy grew 0.3% in April. Despite closing in on recession territory (two straight quarters of negative GDP growth), the Bank of Canada cannot afford to take a dovish pivot — not with 7.7% inflation that could continue to hurt consumers through year's end.

Stagflation isn't ideal for financial markets. Still, a recession isn't a given, even though many stocks are priced as though we're about to endure a lost year. In this piece, we'll check in with three oversold TSX stocks worth stashing in your long-term portfolio.

This market selloff could easily worsen. Regardless, TFSA investors should continue to stay the course and top up gradually on the way down for better results over a longer-term timespan.

TFSA top pick #1: IA Financial

IA Financial (TSX:IAG) is a Canadian insurer that enjoyed a 2.4% rally on Thursday, as the rest of the market headed south in a hurry. After enduring a nearly 30% fall from peak to trough, the $6.9 billion insurance and wealth management company seems to have found its footing. A recession in Canada would be detrimental to the firm's earnings growth prospects. After a drastic slowdown in the Canadian economy in April, it seems prudent to rid one's portfolio of such insurance plays.

Still, rates are headed higher, and if the economy can absorb the growth-reducing impact of some of the coming hikes, it's oversold names like IAG that could have room to the upside. IA is a very well-run insurer, having outperformed its peers during prior downturns. At 8.5 times trailing earnings, with a 3.9% dividend yield, IAG stock is one of the cheaper passive-income plays to average down into.

TFSA top pick #2: Manulife Financial

Manulife Financial (TSX:MFC)(NYSE:MFC) is a more bountiful insurer, with a huge 5.91% dividend yield at writing. At 4.79 times trailing earnings, it's also a cheaper insurance bet in the face of an economic slowdown. The dividend is stretched, and the insurer may face a bumpier road to recovery, given its greater international exposure compared to IA. However, with lockdowns lifting in China, I see a tailwind that could help Manulife stock stage a comeback from its slide into bear market territory.

Over the long run, Manulife has more ambitious growth prospects than IA. With a lower multiple and a higher dividend, MFC stock seems like one of the best bets in the insurance space. Still, the single-digit price-to-earnings multiple signifies that an earnings drought could be in the cards for 2023. With such a lowered bar, I think contrarians looking for additional upside could do very well in the name by buying at these depths.

TFSA top pick #3: CP Rail

CP Rail (TSX:CP)(NYSE:CP) made a huge splash when it acquired Kansas City Southern — a move that allowed it to become the first rail to pass the Canada-U.S. and U.S.-Mexico borders. CP will have its hands full, as it looks to integrate its new assets. As it does so, it'll have to grapple with a potential economic downturn that could see commodity shipments begin to slow.

In any case, **Deutsche Bank** is still a raging bull on the name, with a "catalyst buy" rating on the name. At 22.8 times trailing earnings, CP stock is not cheap. There's already a lot of expectation baked in. Though higher commodity shipments could pave the way for a solid quarter, TFSA investors may wish to average into a position over time rather than looking to load up on a full position at one price.

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2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:CP (Canadian Pacific Railway)
4. TSX:IAG (iA Financial Corporation Inc.)
5. TSX:MFC (Manulife Financial Corporation)

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