



Market Correction: 1 Growth Stock I'd Buy Before a Recession

Description

Economists warn of a global recession, as central banks increase interest rates to tame inflation. While a recession is yet to appear in the gross domestic product (GDP), it has already appeared in the consumer confidence index. A *Harvard Business Review* [article](#) stated that a recession drives companies towards new technologies. I compared the study's findings with the stock performance of **CGI Group** ([TSX:GIB.A](#))([NYSE:GIB](#)) and found a positive trend.

CGI is a growth stock I'd buy at every market correction. Here's why.

Correlation between a recession and digital transformation

A 2018 [paper](#) on the 2008-09 crisis found that IT-related job postings surged in the U.S. cities hardest hit by the recession, as many companies increased their IT investment. Economists theorize that companies have an incentive to boost capacity in a booming economy. But in a slowing economy, companies have an incentive to optimize. Hence, they invest in technology. McKinsey senior partner Katy George stated that companies opt for digital transformation near a recession because

- Improved analytics helps management understand how the recession is impacting the business and identify opportunities for operational improvements;
- It helps the management cut cost by automating tasks or adopting data-driven decision-making; and
- It makes companies more agile and flexible in handling the uncertainty a recession brings.

A recession pulls out inefficient players and favours the efficient players. Hence, you'll see some companies grab a higher market share and emerge as market leaders after a recession.

How will CGI benefit from a recession?

CGI helps companies through their digital transformation by providing end-to-end services. For instance, CGI is offering an energy company change management and continuous process

improvement services to help them deploy their strategy and energy transition plan. CGI is helping some companies modernize their legacy systems and subsequently manage the transformed environment. Its client base ranges from the government to manufacturing to utilities and health.

CGI surveyed its client base and noted that nearly 80% of respondents plan to sustain or increase their IT budget next year, as macroeconomic pressures continue to expand. A majority of the IT budget is targeted at modernizing application portfolios.

CGI's stock performance in the past economic crisis

I looked at CGI's stock price performance in past crises and found that the stock outperformed in most of them. During the 2008 financial crisis, CGI stock surged more than 78% between October 2008 and October 2010. This performance matches the findings of the above study that more companies invested in IT.

CGI stock outperformed even in industry-specific crises. It surged more than 40% between October 2014 and April 2015 when the shale gas exploration reduced oil price from over US\$100/barrel to US\$65/barrel. This is because CGI caters to utilities.

CGI stock also outperformed ahead of the United States-China trade war in 2018, which altered the technology supply chain. It surged 17% between April and July 2018, as it caters to the manufacturing and distribution sectors. The stock surged 60% during the pandemic rally, too. Unlike other [tech stocks](#) that crashed in the tech selloff, CGI fell less than 10%.

Three reasons to buy CGI stock now

- CGI stock has recovered slightly from the selloff that pushed it into the oversold category on June 16. This is a good time to buy the stock before it completes its 30-60% rally ahead of a recession.
- CGI's latest quarterly earnings show a healthy order book and an improved debt profile. The company took advantage of the record-low interest rate during the pandemic to reduce its net debt from over \$3.5 billion to \$2.7.3 billion.
- It has \$2.6 billion in cash reserve to fund operations. It is using the market correction to make strategic acquisitions for business expansion.

CGI has growth potential and strong fundamentals, making it the growth stock of choice before a recession.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:GIB (CGI Group Inc.)
2. TSX:GIB.A (CGI)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Investing
2. Tech Stocks

Date

2025/08/14

Date Created

2022/07/08

Author

pujatayal

default watermark

default watermark