RBC Warns of Recession in 2023: 2 Stocks to Buy Anyway

Description

Stock markets had a big upward move on Thursday following a rise in U.S. jobless claims. Indeed, recession fears are in the air, with many pundits calling for one in 2023. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) rang the alarm bell, calling for Canada to fall into a mild recession over the timeframe. Though high energy prices could help steer clear of such a downturn, it appears that many investors have come to terms with the choppy road that could be lying ahead.

Recession: Here's why I'd buy anyway

A recession or slowdown is never ideal, especially one engineered by the Federal Reserve or Bank of Canada, which is expected to deliver another jumbo-sized rate increase over the coming month. In any case, the market correction is already in, and if the coming downturn is less severe than those suffered in prior decades, the formation of a market bottom in the second half of 2022 could be in the cards.

Now, nobody knows what a bottoming out will entail, but those V-shaped recovery seekers should look to temper their expectations. Looking ahead, it'll be about corporate earnings and the pace of inflation, which could remain scorching hot for the summer.

Though there's not much to look forward to in H2 2022, I think a lot of the negativity has already been baked into a wide range of stocks. And in this piece, we'll have a closer look at two Canadian stocks that are getting a tad too cheap to ignore any longer, even as pundits continue doubling down on their bearish calls.

Royal Bank of Canada

Royal Bank of Canada is one of the bluest blue chips on the entire TSX Index. Although provisions could creep higher, as the Canadian economy tumbles into a recession, I'd argue that a less-severe downturn wouldn't be all that detrimental to Royal Bank stock. The bank is not only well capitalized; it's stress-tested and ready for a downturn. Shares are down around 15% from recent highs. At 11.1 times trailing earnings, shares of RY are skewing towards the cheaper end of the historical range.

Nobody knows how hard loan growth will take a hit. But if there's a firm that can absorb the blow, it's Royal Bank. Fortunately, Royal Bank believes the coming downturn will be short-lived. The Canadian credit downturn and 2020 market crash could prove much more severe than the hit that's to come. For that reason, I'd look to nibble on RY stock now and on further dips.

Canadian Tire

Canadian Tire (TSX:CTC.A) is an iconic retailer that's adapted with the times. The Triangle loyalty program and e-commerce platform have helped the brick-and-mortar kingpin thrive during the pandemic. Now that the economy is reopened, fears linger as to the consumer. With rates on the rise and layoff fears rising, many will delay the purchase of home improvement goods or appliances.

Canadian Tire may be economically sensitive, but it's not going to stay down forever. The stock appears to have sold off in anticipation of a consumer slowdown. At 8.9 times trailing earnings, investors must weigh whether recession jitters are overblown or if earnings are destined to take a more drastic slide.

In any case, the 3.84% yield seems too good to pass up here for long-term investors willing to ride out a minor storm in 2023.

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