



## Why This Utility Stock Will Thrive During a Recession

### Description

With the economy increasingly looking like it's going to enter a recession next year, the market has been on edge for some time. Economic data continues to point to an overheated economy, and therefore, investors are rapidly dumping stocks ahead of a likely recession.

In Canada, the **TSX** posted its worst month in June since the start of the pandemic, losing 9% of its value. Furthermore, for the second quarter, which also just ended in June, the TSX lost 13.8%. That's the worst quarterly performance, again since the start of the pandemic, and the worst second-quarter performance that the TSX has had since 1982.

Therefore, it's prudent that investors review their holdings and look for high-quality stocks you can add to help shore up your portfolio. And if you're looking for ultra-safe stocks to buy, there's no question that a top stock to buy ahead of a potential recession is a leading utility stock like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). Here are three reasons why.

### Utilities are highly defensive

Any time you're looking for a stock to buy that's safe and reliable, regardless of whether a recession is coming, defensive businesses are some of the best to buy.

[Defensive businesses](#) are typically companies that offer essential goods or services. In the case of Fortis and other utility stocks, the electricity, gas, and water that they provide to households and commercial customers are essential.

So, whether or not a recession is impacting the economy, the change in sales that Fortis will see will be almost non-existent, which is why these stocks are some of the best to buy if you're worried about the economy.

In fact, through the pandemic, Fortis managed to increase its sales year over year in every single quarter.

## Defensive businesses typically lead to lower-risk investments

Because utilities and their underlying business operations are so defensive, a stock like Fortis tends to be much lower risk and a perfect investment ahead of a recession.

When the market is full of uncertainty, such as what we're seeing today, investors want as much predictability and stability as possible, which means finding low-risk investments.

And because utility stocks like Fortis have highly resilient revenue, offer highly predictable growth and have strong and consistent cash flow, they are some of the top stocks investors flock to as recessions begin to materialize.

Furthermore, because of all this ultra-safe and robust income, these companies are some of the best dividend growth stocks to buy and are also some of the longest-standing stocks on the Canadian Dividend Aristocrats list.

And, of course, because the businesses are such high-quality, the stocks tend to be [less volatile](#), too.

And sometimes, during a recession or market selloffs, a utility stock like Fortis can even gain value, as there is so much demand from investors to buy ultra-safe dividend stocks.

## Interest rates can have a significant effect on how a utility stock like Fortis performs in a recession

When it comes to utility stocks, interest rates can also play a significant role in how they perform. So, although, right now, utility stocks and other safe and reliable dividend stocks are being impacted as interest rates rise, the opposite effect happens when interest rates fall.

And typically, when the economy enters a recession, especially if it's a significant recession, central banks will look to lower interest rates in order to help spur economic growth.

There's, of course, no guarantee that this will happen, especially in this environment when ultra-low interest rates are one of the main reasons why inflation is so high today in the first place.

However, if these higher rates prove effective in cooling the economy, and it, in fact, slows down more than policymakers had hoped, the lowering of interest rates could help drive the valuation for utility stocks like Fortis higher.

Therefore, if you're concerned about the potential for a recession next year or are just looking to increase the safety and reliability of your portfolio, a high-quality utility stock like Fortis is one of the best you can buy and hold for years.

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danieldacosta

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