Top 3 Stocks to Buy in a Recession

Description

The chances of a recession have surged in recent months. The global economy is buckling under the pressure of higher borrowing costs and inflation. Growth could slow down, which ultimately impacts stock prices.

If you're investing cash for the first time or simply looking for opportunities to expand your portfolio, this could be an ideal time to make the leap. A beaten-down stock market offers attractive valuations. However, investors need to cautiously avoid the value traps and pick up stocks that have a recession-resistant business model.

Here are the top three stocks to buy in a potential recession.

Slate Grocery

Investors should focus on hard assets and essential businesses during recessions. The value of physical assets and the margins of an essential business are more resistant to economic downturns. **Slate Grocery REIT** (TSX:SGR.U) combines both these factors in a single investment opportunity.

The real estate investment trust focuses on grocery stores across the United States. Its biggest tenants are big-box retailers that consumers rely on for essential purchases, regardless of economic cycles. That's why the stock quickly recovered from a pandemic dip in 2020 and is relatively flat year to date.

SGR stock offers an 8.2% dividend yield, making it one of the best dividend stocks on the market. The company hopes to expand its portfolio this year which could boost free cash flows in the years ahead. Put simply, this could be an ideal target for investors seeking safe passive income during a potential recession in 2022.

Dollarama

Consumers change their spending habits with economic cycles. When the cost of living increases and income declines, families shift to low-cost discount retailers to stay within their budget. That's a tailwind for dollar stores like **Dollarama** (TSX:DOL).

Dollarama stock wasn't publicly traded during the last recession, but there's plenty of evidence that it could sail through this one. Year to date, the stock is up 20%. Compare that to 11.7% decline in the rest of the Canadian stock market.

This outperformance could continue throughout 2022, as consumers keep relying on discount retailers and Dollarama keeps expanding its footprint. The stock is currently trading at a price-to-earnings ratio of 33. Keep an eye on this reasonably priced recession stock.

Nutrien

The world faces another economic issue this year: food scarcity. The ongoing conflict in Eastern Europe has effectively cut the supply of grains from Ukraine and fertilizers from Russia. Parts of Asia and Africa could face a severe food crisis because of this shortage.

Canadian potash producer **Nutrien** (TSX:NTR)(NYSE:NTR) is stepping in to plug the gap. The company is the world's third-largest supplier of nitrogen fertilizer. This year, it's ramping up production to meet the needs of farmers across the world. That's a tailwind that could be reflected on its balance sheet in the coming months.

Meanwhile, Nutrien stock trades at a modest price-to-earnings ratio of 9.7. That's an earnings yield of 10% — far higher than the rate of inflation. Earnings and dividends could rise higher in the months ahead. That's what makes Nutrien an ideal target for a potential recession.

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1. NYSE:NTR (Nutrien)
2. TSX:DOL (Dollarama Inc.)
3. TSX:NTR (Nutrien)
4. TSX:SGR.U (Slate Retail REIT)

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