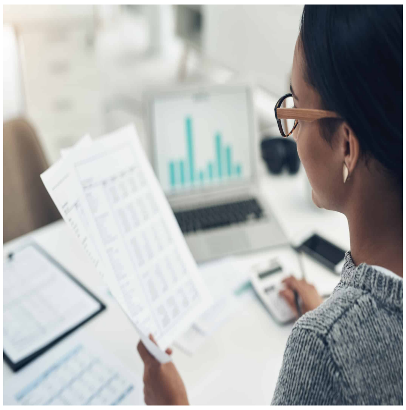

How to Invest in the Stock Market Amid a Recession

Description

After several months of correction in 2022, stock markets are now concerned about a potential recession. The aggressive interest rate hike policy followed by a majority of central banks worldwide is one of the primary factors instigating recession fears, along with global supply chain disruption.

As inflation rates hover near record highs, central banks will likely implement drastic rate hikes, resulting in a worldwide recession. Moreover, the Russian “weaponization” of commodities has resulted in red-hot inflation rates, necessitating a hawkish stance.

What analysts are saying

The Canadian economy is slowing down. According to Statistics Canada’s preliminary estimates, Canada’s GDP contracted by 0.2% in May 2022. In addition, home sales declined 9% month over month in May. Also, several business surveys conducted last month indicate that broader momentum has been declining, showing signs of a slowing economy.

Nomura Holdings Inc. analysts expect Canada to enter a recession within the next 12 months, according to a Bloomberg report. Furthermore, former Treasury Secretary Lawrence Summers said in a Bloomberg TV interview, “The risks of a 2022 recession are significantly higher than I would have judged six or nine weeks ago.”

How to invest in a recessionary backdrop

1. Closely follow defensive stocks

Defensive stocks are well-established companies that generate stable earnings irrespective of the economic conditions. The products and services offered by such defensive companies tend to have inelastic market demand, such as utilities, healthcare, telecommunications, groceries, other food items, etc.

Defensive stocks usually pay out a handsome dividend every quarter, making them ideal investments for passive-income generation. Furthermore, these companies typically have an enormous balance sheet, strong cash flows, and robust liquidity positions, allowing them to weather market downturns easily.

2. Try dollar-cost averaging

Dollar-cost averaging is an investment technique where investors buy a stipulated number of shares over a prolonged period of time. Suppose you want to buy 100 shares of **Emera** (TSX:EMA) you can buy 20 stocks each month over a five-month period instead of purchasing all 100 shares at once.

In a bearish market, stock prices tend to decline substantially. However, predicting when the stock will bottom out might be difficult. With dollar-cost averaging, you can reduce your net investment amount if you expect stock prices to keep plunging in the near term.

3. Scrutinize whether it is a value stock

Market corrections and recessionary concerns come with a silver lining — shares of leading fundamentally sound companies trade at deep discounts. Value stocks typically trade at a price lower than their intrinsic value. Legendary institutional investors such as Warren Buffet and Seth Klarman have been long-time advocates of value investing and have amassed most of their wealth by investing in value stocks.

A recession-proof stock

Fortis (TSX:FTS)(NYSE:FTS) is one of the largest and most diversified electricity and gas utility companies in Canada. The company serves over 3.4 billion customers across Canada, the United States, and the Caribbean islands. As of March 31, 2022, FTS has approximately $58 billion in assets.

The stock has gained 9.16% over the past year, outperforming the benchmark S&P/TSX 60 Composite Index, which declined 7.85% over this period. Moreover, FTS offers investors a tasty dividend yield of 3.58%.

The Foolish takeaway

A market downturn generally spooks retail investors, as they tend to liquidate their equity holdings in fear of further losses. However, investment gurus take advantage of such market dips by buying promising value stocks at deep discounts. Thus, you can multiply your wealth during this recession by investing in fundamentally sound stocks.

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