Top Canadian Stocks for TFSA Investors as Recession Fears Rise

Description

Even though markets are trading at the lowest levels of 2022, the bottom still looks far. Runaway inflation and rising rates could continue to weigh on risky assets. Thus, it is prudent for conservative investors to increase their exposure to defensives.

If you have some contribution room left in your Tax-Free Savings Account (TFSA), you can consider adding some top-quality names for the long term. The dividends and capital gain generated within the TFSA are tax free throughout the holding period and at withdrawal.

So, here are some of the top Canadian stocks to consider.

Dollarama

High-growth tech stocks see notable weakness in the inflationary environment. However, stocks like **Dollarama** (TSX:DOL) flourish in these situations, as their value proposition increases during rising inflation. And that's what has happened with DOL stock. While broader markets have tumbled 12% so far, Dollarama stock has soared 23% in 2022. It is currently trading close to its all-time highs and is showing no signs of slowing.

Dollarama is considered a safe-haven name, because it has less correlation of earnings with economic cycles. As a result, market participants switch to such names as markets turn volatile.

Dollarama will likely see some pressure on its margins and earnings growth in the next few quarters amid rising costs. However, it will still likely be well placed compared to peer consumer stocks. In addition, customers increasingly move to discount stores like Dollarama in inflationary scenarios. So, higher foot traffic and increased demand might help its top line.

DOL operates 1,431 stores in Canada, which is way higher than its peers. Its vast store network, unique value proposition, and stable earnings profile make it an attractive bet in these uncertain markets.

Fortis

Canada's top utility stock **Fortis** (TSX:FTS)(NYSE:FTS) is my second pick for TFSA investors. Its dividends and slow-moving stock will likely stay resilient and outperform broader markets if a recession hits. FTS has returned 4% so far in 2022, beating the **TSX Composite Index**.

Utilities like Fortis have a stable demand outlook for their services in almost all economic cycles — be it an economic expansion or a recession. As they operate a highly regulated business, their earnings are fairly visible. Its earnings have grown on an average in the lower single digits for years, irrespective of the state of the broader economy. Thus, it has paid stable dividends as well.

FTS stock currently yields 3.5%, similar to broader markets. It has increased shareholder payouts almost for the last 50 consecutive years. Utilities give away a large chunk of their earnings as dividends to shareholders. Thus, investors prefer utility stocks when it comes to dividends and safe-haven investing.

Bottom line

Canadian investors have an advantageous route in terms of TFSA to facilitate tax-free, long-term investing. Both the above-mentioned names pay stable dividends and could outperform if markets turn lower. Also, their stable earnings, less-volatile stock, and strong business model make them attractive in current markets.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:DOL (Dollarama Inc.)
3. TSX:FTS (Fortis Inc.)

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