3 Top TSX Stocks to Buy Amid a Looming Recession

Description

Not all stocks or sectors are equally exposed to recession. For example, tech and banks might see large-sized drawdowns amid an economic downturn, while energy, utilities, and consumer staples could remain relatively strong. So, here are three top TSX stocks that could remain safe bets if the recession comes.

Surge Energy

After a significant drawdown since last month, TSX energy stocks seem to calm a little last week. They will likely trend higher back again soon on the expectations of strong Q2 numbers. **Surge Energy** (TSX:SGY) is one such small-cap, oil-focused stock. Despite the recent pullback, SGY stock is currently sitting on a 100% gain for the year.

Surge Energy will report its Q2 2022 earnings on July 27. It will most likely report much higher earnings for the quarter, thanks to higher energy commodity prices. Surge expects to generate $191 million in free cash flows in 2022 with West Texas Intermediate (WTI) crude at $90 a barrel. With back-to-back quarters of strong free cash flows, Surge will likely be able to bring down its debt to a large extent.

It will pay a dividend of $0.42 per share this year, representing an annual yield of nearly 5%. It will be interesting to see if Surge raises its dividend further when it releases its Q2 numbers.

Even if recession fears loom, crude oil prices could continue to trade strong. Demand may not take much of a dent, but supply constraints are much more worrisome, which should send the prices higher.

Dollarama

While broader markets are going through turmoil, Canadian value retailer **Dollarama** (TSX:DOL) has been quite resilient. It is, in fact, sitting at its record high with a 25% surge for the year.

Interestingly, DOL could continue to trade strong, as recession fears rise and broader markets turn more volatile. Dollarama has a unique safety appeal due to its earnings stability and less correlated stock. In addition, value retailers like Dollarama see more footfall and higher demand during inflationary periods, resulting in higher financial growth.

Dollarama proved its mettle during the pandemic crash as well. The TSX Index crashed 35% in March 2020, while DOL stock tanked a mere 15%. Notably, it recovered fast, as it was registered under essentials and kept running during COVID lockdowns.

If you are looking for a relatively safe bet, particularly amid rising recession fears, DOL stock could be a pick given its safety appeal and stable stock.

Fortis

A consistently growing dividend income comes in very handy in economic downturns. That's why market participants turn to defensives like **Fortis** (TSX:FTS)(NYSE:FTS).

Fortis is Canada's one of the biggest utility companies and has one of the longest dividend-growth streaks. It has increased shareholder payouts for the last 48 consecutive years. And when it comes to utilities, regularly growing dividends are not that rare.

Utilities witness stable demand and, thus, stable earnings growth in economic booms and even in recessions. So, as tech companies or banks experience major earnings declines during the recession, utilities are particularly well placed. Likewise, Fortis has seen relatively lower but stable financial growth for decades, be it the pandemic or the 2008 financial meltdown.

FTS currently yields 3.5%, which is in line with TSX stocks. Notably, although stocks like FTS grow slowly and underperform broader markets in bull markets, they have outperformed in the long term due to their consistently increasing dividends.

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