TFSA Investors: 1 Canadian Stock That Could Surge in a “Mild” Recession

Description

Many TFSA (Tax-Free Savings Account) investors are eagerly awaiting the next market comeback. We’ve been stuck in a bear market for more than six months now. Although every bear market bounce has faltered in a hurry, investors shouldn’t be so quick to dismiss the latest relief bounce by the markets. Yes, a recession is a growing possibility, but it is possible to make money in a recession — especially with all the damage that’s already been dealt in the first half.

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It’s hard to find any reason to be optimistic these days. However, one should not pass up every potential value play as just another value trap simply because a recession is looking likely for next year. By dismissing every fallen stock as “too good to be true,” one could find themselves missing out on the next bounce back in the equity markets. Things won’t always be so gloomy. In fact, there’s always a chance that things (like corporate earnings) could be a heck of a lot better than investors expect today.

Indeed, second-quarter earnings have been trickling in over the past two weeks. And the results haven’t been nearly as bad as expected. Sure, we’ve just hit the tip of the ice burg regarding earnings (with less than 20% of earnings results revealed). Still, the numbers, while not great, haven’t been as abysmal as some analysts have expected. Aside from a few outliers — like **Snap** — which missed the mark entirely, this second quarter has been a source of relief for many.

Market comeback: Don’t count it out for the second half of 2022

Undoubtedly, the recent partial comeback in stocks hasn’t been felt by all names. Going into the second half of the year, we could see a bit of a divide between the haves and the have-nots. Certain firms can navigate a “mild” recession pretty well. Now, for many young investors, like millennials, recessions can be rather horrifying, since many graduated into one of the worst recessions in recent history back in 2008. The S&P 500 took a 55% haircut. And the recovery was quite a slog, especially for discretionary stocks.

Now, the next recession will be unlike any before it. Employment (on the whole) is still on stable footing. It’s still hard for many firms to fill positions. The so-called Great Resignation may have worn off in the tech sector, but it still seems to be alive and well across various other industries — most notably in the service sector.

In short, the next recession seems unlikely to be as horrific as 2008. Does that mean markets can't fall further? Of course not. Negative exogenous events can always happen. Regardless, I think there's way too much negativity baked in such that many may be discounted the odds of something going right for a change.

Canadian Tire: Cheap with excellent dividend-growth prospects

That's why I'm a huge fan of certain cyclical stocks with too much negativity. Think firms like **Canadian Tire** (TSX:CTC.A), a discretionary retailer that seems to be passed up by investors, despite its remarkable past strength. For Canadian Tire, it's all about that coming recession. The stock is flirting with a bear market, which is down around 19% from its high. And the valuation, I think, already bakes in a mild recession, with shares trading at exactly nine times trailing earnings.

The 3.8% dividend yield is also the highest it's been since the depths of 2020. Best of all, the payout is on stable footing, given the modest 25.6% payout ratio. The ratio is still below that of the 29.9% retail industry average, opening the door for potential dividend hikes if the coming recession is not nearly as bad as some pessimistic millennials expect. I think a repeat of 2008 is unlikely.

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Now, that doesn't mean it's time to get aggressive with cyclicals. Dirt-cheap discretionary stocks like Canadian Tire could have the most room to run if we are, in fact, headed for a garden-variety recession or one that's milder than average.

At 0.6 times sales and two times book value, Canadian Tire stands out as real value in my books.

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