This Passive-Income Stock Could Be on the Cusp of a Big Upside Move

Description

Passive-income stocks have held their own rather well, as the markets “puked” out the “wretched excess” (as Charlie Munger put it) in the higher-growth areas of the market this past year. Undoubtedly, a lot of speculation has gone away of late. Many former retail traders and meme stock buyers don’t even want to hear about the markets anymore. With so much damage in the books, it’s a wise idea to start doing some buying, especially in the corners of the market that may not have deserved to fall so drastically.

Rates are on the rise, and a recession is a growing possibility. Despite the challenged consumer and layoff talk, the Federal Reserve (Fed) isn’t convinced that we’ve fallen into a recession yet. Indeed, investors seem to think they’ll take a more dovish pivot if inflation is brought back down to more manageable levels. Still, I’d argue that the Fed is right to continue as planned and to give consumers the assurance that they’re doing their best to crush inflation once and for all.

Sure, nobody wants to see the economy weaken. But it’s a necessary side effect to pull inflation back down. In any case, most areas of the market have faltered ahead of a period of waning consumer demand.

Though I don’t think we’ll fall into a recession in 2023, it’s only prudent to be prepared for such. In times of recession, companies with resilient operating cash flow streams (or funds from operations for REITs) tend to be the best plays to chase on the way down. These are the securities that tend to have the most secure dividends or distributions.

CAPREIT: A growth REIT with stock-like gains potential

Amid the recent TSX correction, **Canadian Apartment Properties REIT** (TSX:CAR.UN), or CAPREIT for short, stands out to me as intriguing. It may not be a stock (it’s a REIT), but it sure acts like one, with about the same magnitude of volatility as the broader market (1.03 beta) and sizeable capital gains potential.

Further, the 3.1% distribution yield is far less than what most REITs have to offer. CAPREIT is a growth REIT that focuses on multi-unit residential rental properties within its markets of interest. The REIT, which owns a lot of real estate in Vancouver and Toronto (two incredibly hot rental markets), may find itself feeling the heat of higher interest rates. Growth REITs tend to borrow considerable sums of cash, and higher borrowing costs mean less can line the pockets of investors.

Still, I view the more than 24% decline in CAPREIT stock as excessive. As recession nears and inflation weights, renters may become likelier to miss a month's rent. That said, I think it's quite a stretch to believe that a repeat of 2020 is in the cards.

Shares slipped towards 2020 lows, but the environment doesn't seem nearly as scary. Further, higher rates have made owning a home less attainable. That means more renters and upward pressure on rents. If anything, CAPREIT may be better able to navigate higher rates than markets currently expect.

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Author
joefrenette