3 Recession-Resistant Stocks to Buy Right Now

Description

Down south of the border, the U.S. economy officially met the technical definition of a recession following a second consecutive lower gross domestic product (GDP) report. Over in Canada, investors are worried about similar results given the recent aggressive interest rate hikes from the Bank of Canada, especially the recent unprecedented 100 basis point (1%) hike.

Investors with a low-risk tolerance are understandably searching for safer stocks that do well under these conditions to add to their portfolios. A wise pick here could be stocks from the consumer defensive stock market sector, a traditionally more defensive portion of the TSX.

These are companies that produce or sell staples that people tend to buy out of necessity regardless of economic conditions, such as food, beverages, household and personal products, packaging, or tobacco. They can often pass increased costs onto the consumer to maintain their margins and profitability.

Loblaw Companies

As one of Canada's largest grocers, **Loblaw Companies** (TSX:L) has operated grocery, pharmacy, health and beauty, apparel, and general merchandise businesses through both corporate and franchise stores since 1919. With a very low beta of -0.01, Loblaw has very low volatility compared to the overall TSX, which makes it less sensitive to market movements.

This recession-busting stock is posting strong earnings as consumers fight off high inflation by shopping at its discount stores, No Frills and Maxi. Adjusted EBIDTA (earnings before interest, taxes, depreciation, and amortization), a measure of overall financial performance, increased 9.8% to $2.8 billion in the first half of 2022.

The stock is currently up 13.4% year to date, compared to the -7.9% loss suffered by the S&P/TSX 60 Index. With 43.7% of the share float now held by insiders, it's a good bet that management believesthe company is undervalued and is on the path to continued growth. One thing to look forward to is Loblaw's upcoming dividend increase to $0.405 per share, which will occur on October 1st.

Dollarama

Dollarama (TSX:DOL) often becomes a favourite place for Canadian consumers to shop when their budgets are tight. With over 1,355 stores across Canada, the company is a well-known brand to many Canadian consumers. During a recession, Dollarama's low prices act as a magnet for consumers looking to pinch pennies when premium grocery stores and retail outlets are no longer viable. In Q1 2022 (its fiscal 2023), EBITDA was up 20.9% to $300.0 million, comprising 28% of sales vs 26% year-over-year.

The stock is currently up 19.9% year to date, compared to the -7.9% loss suffered by the S&P/TSX 60 Index, even beating out Loblaw. Dollarama has had some success maintaining its margin during inflationary times by passing costs onto consumers. Management provided guidance in April for an increase in the net new store count of 60-70 and comparable sales growth between 4-5% for fiscal year 2023.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.B) operates and licenses convenience stores, selling tobacco, groceries, snacks, and alcohol via 9,976 company-operated stores across North America. They also dabble in road and aviation fuels, sell lottery and bus tickets, and even provide ATMs and car wash services. If you've ever shopped at a Circle-K store, you've given this company your money.

The stock is currently up 10% year to date, compared to the -7.9,% loss suffered by the S&P/TSX 60 Index. Recently, Couche-Tarde beat earnings expectations, posting higher earnings-per-share ($0.55 versus $0.53) compared to analyst predictions and sales growth (up 34% to $16.4 billion versus the same period last year). This came despite high prices due to inflation, staffing challenges, and the continued pandemic.

CATEGORY

1. Investing

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1. TSX:DOL (Dollarama Inc.)
2. TSX:L (Loblaw Companies Limited)

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