2 ETFs to Defend Against a Recession or Inflation

Description

2022 has been an interesting year for Canadian investors. With the Bank of Canada (BoC) raising interest rates by 0.25%, 0.50%, 0.75%, and, recently, an unprecedented 1%, two things are on everyone's minds:

1. Is inflation (as measured by the consumer price index, or CPI) finally declining after July's 7.6% reading?
2. Will the economy enter an official recession (as evidenced by two consecutive quarters of gross domestic product, or GDP, decreases)?

I don't have a crystal ball, so I can't answer those concerns. My guess is as good as yours. Between tech sector layoffs, gas still above $2 per litre in some provinces, and soaring meat and dairy prices, things are still looking a bit rocky for now.

Fortunately, that doesn't mean your portfolio has to suffer. Some stock market sectors are positioned to do better, or at least lose less during inflationary or recessionary conditions. For example, energy stocks tend to soar when commodity prices do. Consumer staple stocks enjoy evergreen demand, even during economic downturns due to their essential products.

A great way to gain easy access to a portfolio of these stocks via a single ticker is by investing in exchange-traded funds, or ETFs. Here are my top two picks today from **BMO Global Asset Management.**

Energy ETF for inflation

Inflation means higher commodity prices, whether it be crude oil or natural gas. For energy sector companies, this means increased revenues, better cash flows, and stronger earnings, which trickles down into a higher share price and dividends for investors.

A great way to invest in the Canadian energy sector is via **BMO Equal Weight Oil & Gas Index ETF** (TSX:ZEO). ZEO holds 11 oil and gas stocks from Canada's energy sector in equal allocations. ZEO currently costs around $63 per share, making it affordable for investors with smaller accounts.

ZEO's holdings include **Tourmaline Oil**, **Arc Resources**, **Imperial Oil**, **Keyera**, **Cenovus Energy**, **TC Energy**, **Enbridge**, **Pembina Pipeline**, **Canadian Natural Resources**, and **Suncor Energy**. The ETF charges an expense ratio of 0.61% and pays out a distribution yield of 3.68%.

Consumer staple ETF for recession

During recessions, consumer spending drops as household tighten their budgets due to layoffs. While consumer discretionary stocks tend to suffer strongly as demand falls off, consumer staples stocks are more resilient. After all, people still need to eat and drink no matter the economic circumstances.

A great way to buy a portfolio of global consumer staples stocks is via **BMO Global Consumer Staples Hedged to CAD Index ETF** (TSX:STPL). STPL currently holds 156 stocks, with notable companies including **Proctor & Gamble**, **Nestle**, **Coca-Cola**, **PepsiCo**, and **Unilever**.

STPL currently costs an expense ratio of 0.40%, which is cheaper than ZEO. Currently, the annualized distribution yield is 2.31%. If you're looking for a way to hold a portfolio of U.S., European, and Asian consumer staples stocks, STPL is the way to go.

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1. Investing

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